交通銀行
BANK OF COMMUNICATIONS

EXPO 2010 SHANGHAI CHINA

Global Partner of Expo 2010 Shanghai China

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

Stock Code: 03328

# 2009 Annual Report

# BRIEF INTRODUCTION

Founded in 1908, Bank of Communications Co., Ltd. (the "Bank") is one of the oldest banks in China and one of the note-issuing banks in modern China. The Bank was listed on the Hong Kong Stock Exchange in June 2005 and on the Shanghai Stock Exchange in May 2007.

The Bank currently has 113 domestic branches, including 29 provincial branches, 7 branches directly managed by Head Office, 77 provincial sub-branches and has established 2,648 outlets in more than 190 major cities in Mainland China. The Bank has also set up 9 overseas institutions in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt and Macau, and two representative offices in London and Sydney. According to the ranking of the "Top 1000 World Banks 2009" published by the British magazine "The Banker", the Bank's total assets ranked 56 and its Tier-1 capital ranked 49.

The Bank is one of the major financial services providers in China. At present, the Bank's business scope covers commercial banking, brokerage services, trust services, finance leases, fund management, insurance and offshore financial services. Its wholly-owned subsidiaries include BOCOM International, BOCOM Insurance and BOCOM Leasing. Subsidiaries in which the Bank has a controlling interest include BOCOM Schroder, BOCOM International Trust, BoCommLife Insurance Company Limited and Dayi Bocom Xingming Rural Bank. The Bank is also the largest shareholder of CRCB.

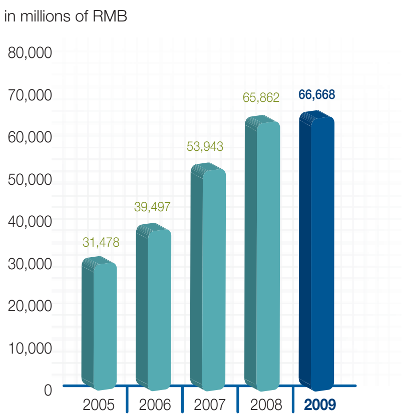
The Bank is the sole global commercial bank partner of the World Expo 2010 Shanghai and will provide high quality financial services to both domestic and foreign customers.

The Bank's development strategy is to become "a first-class publicly—listed universal banking group with niche in wealth management and aim for international expansion".

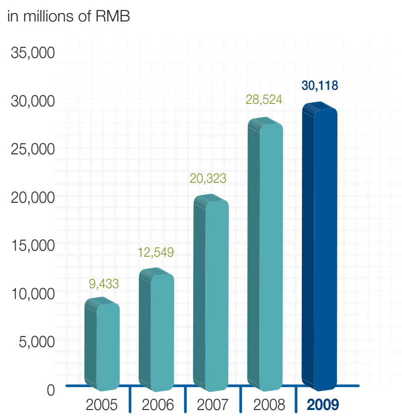
# Contents

# Financial Highlights

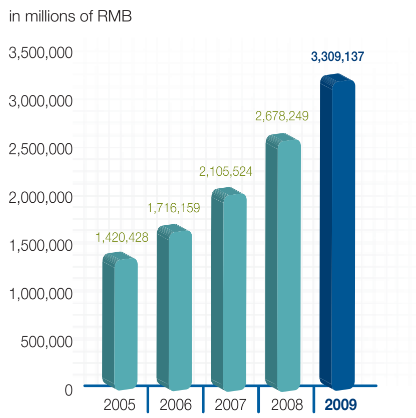
## Net interest income



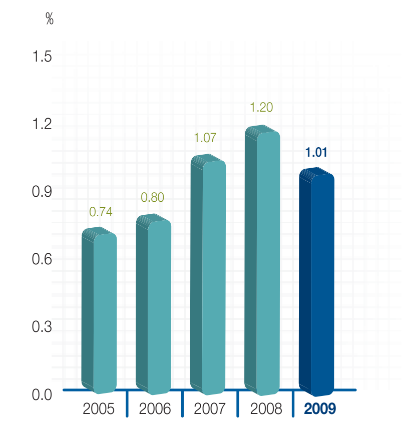

## Net profit (excluding minority interest)



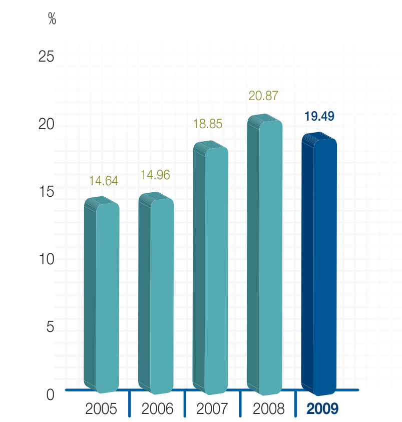

## Total assets



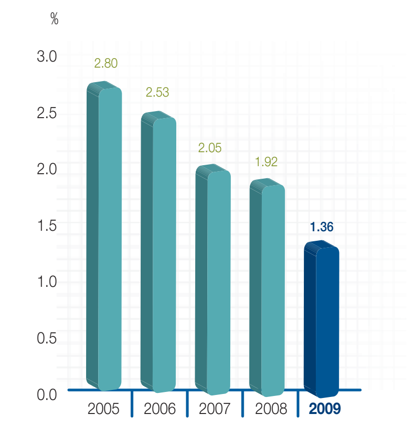

## Return on average total assets



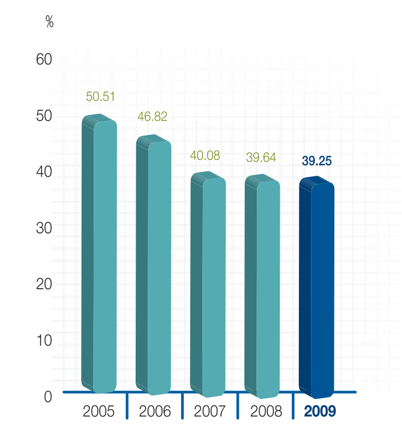

## Return on average shareholder's equity



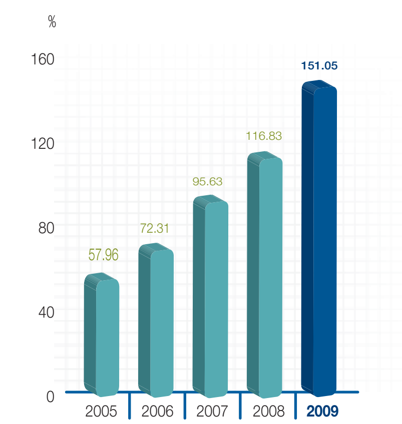

## Impaired loans ratio



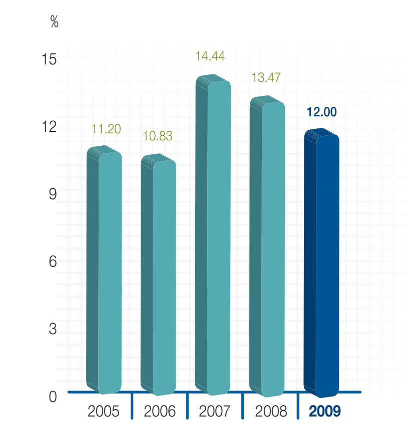

## Cost to income ratio




## Provision coverage of impairment loans




## Capital adequacy ratio



| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Annual Results** | | | | | *(in millions of RMB)* |
| Net interest income[1] | **66,668** | 65,862 | 53,943 | 39,497 | 31,478 |
| Operating profit before tax[2] | **38,301** | 35,953 | 31,242 | 17,774 | 13,098 |
| Net profit (excluding minority interest)[2] | **30,118** | 28,524 | 20,323 | 12,549 | 9,433 |
| **At year end** | | | | | *(in millions of RMB)* |
| Total assets[2] | **3,309,137** | 2,678,249 | 2,105,524 | 1,716,159 | 1,420,428 |
| Includes: loans and advances to customers[1] | **1,839,314** | 1,328,590 | 1,104,490 | 924,825 | 769,540 |
| Total liabilities[2] | **3,144,712** | 2,532,649 | 1,976,872 | 1,628,697 | 1,339,983 |
| Includes: due to customers[1] | **2,372,055** | 1,865,815 | 1,555,599 | 1,344,177 | 1,212,824 |
| Shareholder's equity[2] | **164,425** | 145,600 | 128,652 | 87,462 | 80,445 |
| Shareholder's equity (excluding minority interest)[2] | **163,848** | 145,167 | 128,234 | 87,403 | 80,381 |
| **Per share** | | | | | *(in RMB)* |
| Diluted earnings per share[2] | **0.61** | 0.58 | 0.42 | 0.27 | 0.22 |
| Net assets per share[2] | **3.36** | 2.97 | 2.63 | 1.91 | 1.76 |
| Net assets per share (excluding minority interest)[2] | **3.34** | 2.96 | 2.62 | 1.91 | 1.75 |
| **Major financial ratio** | | | | | *(%)* |
| Return on average total assets[2,3] | **1.01** | 1.20 | 1.07 | 0.80 | 0.74 |
| Return on average shareholder's equity[2,4] | **19.49** | 20.87 | 18.85 | 14.96 | 14.64 |
| Cost to income ratio[2,5] | **39.25** | 39.64 | 40.08 | 46.82 | 50.51 |
| Impaired loans ratio[6] | **1.36** | 1.92 | 2.05 | 2.53 | 2.80 |
| Provision coverage of impairment loans[7] | **151.05** | 116.83 | 95.63 | 72.31 | 57.96 |
| **Capital adequacy ratio** | | | | | *(%)* |
| Core capital adequacy ratio | **8.15** | 9.54 | 10.27 | 8.52 | 8.78 |
| Capital adequacy ratio | **12.00** | 13.47 | 14.44 | 10.83 | 11.20 |

Notes:

1. The comparative data (including the net interest income, outstanding balances of loans and advances to customers before impairment allowances, impairment allowances and due to customers) are reclassified to conform with the disclosure of financial information for the year ended 31 December 2009 (the "Reporting Period"). (same applies hereinafter)
2. The comparative date (including profit before tax, net profit, total assets, total liabilities, shareholder's equity, etc.) were adjusted retrospectively due to changes in accounting policies for fixed assets. (same applies hereinafter)
3. Calculated by dividing net profit of the Reporting Period by the average of total assets at the beginning and at the end of the Reporting Period.
4. Calculated by dividing net profit (excluding minority interest) of the Reporting Period by the average shareholder's equity (excluding minority interest) at the beginning and at the end of the Reporting Period.
5. Calculated by dividing other operating expenses by the net operating income (which includes net interest income, net fee and commission income, dividend income, gains less losses from trading activities, gains less losses arising from de-recognition of investment securities and other operating income).
6. Calculated by dividing the outstanding balance of impaired loans by the outstanding balance of loans before impairment allowances at the end of the Reporting Period.
7. Calculated by dividing the outstanding balance of impairment allowances by the outstanding balance of impaired loans at the end of the Reporting Period.

# Corporate Information

## LEGAL NAME

Bank of Communications Co., Ltd.

## LEGAL REPRESENTATIVE

Hu Huaibang

## DIRECTORS

### Executive Directors

Hu Huaibang (Chairman)
Niu Ximing (Vice Chairman and President)
Peng Chun
Qian Wenhui

### Non-executive Directors

Zhang Jixiang
Hu Huating
Qian Hongyi
Wong Tung Shun, Peter
Laura M. Cha
Ji Guoqiang
Lei Jun
Yang Fenglin

### Independent Non-executive Directors

Xie Qingjian
Ian Ramsay Wilson
Thomas Joseph Manning
Chen Qingtai
Li Ka-cheung, Eric
Gu Mingchao

## SUPERVISORS

Hua Qingshan (Chairman)
Guan Zhenyi
Yang Fajia
Wang Lisheng
Li Jin
Yan Hong
Zheng Li
Jiang Zuqi
Liu Sha
Chen Qing
Shuai Shi

## COMPANY SECRETARY

Du Jianglong

## AUTHORISED REPRESENTATIVES

Peng Chun
Du Jianglong

## INVESTOR SERVICE

| | |
|---|---|
| Address: | No. 188 Yincheng Zhong Road<br>Pudong New District Shanghai, PRC |
| Postal Code: | 200120 |
| Tel: | 86-21-58766688 |
| Fax: | 86-21-58798398 |
| E-mail: | investor@bankcomm.com |
| Website: | www.bankcomm.com |

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

| | |
|---|---|
| Address: | 20 Pedder Street, Central, Hong Kong |
| Tel: | 852-29738861 |

## SELECTED NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE

A shares: China Securities Journal, Shanghai Securities News, Securities Times and website of the Shanghai Stock Exchange http://www.sse.com.cn

H shares: HKExnews website of the Hong Kong Stock Exchange http://www.hkexnews.hk

## PLACES WHERE THE ANNUAL REPORT CAN BE OBTAINED

the Head Office of the Bank
and principal business locations

## AUDITORS

PricewaterhouseCoopers
Deloitte Touche Tohmatsu CPA Ltd.

## HONG KONG LEGAL ADVISER

Baker & McKenzie LLP

## PRC LEGAL ADVISER

King & Wood PRC Lawyers

## A SHARES SPONSORS

China Galaxy Securities Company Limited
CITIC Securities Company Limited
Haitong Securities Company Limited

## SHARE REGISTRARS

A shares: China Securities Depository and Clearing Corporation Limited, Shanghai Branch
3/F, China Insurance Building, No. 166 Lujiazui Dong Road, Pudong New District, Shanghai, PRC

H shares: Computershare Hong Kong Investor Services Limited, Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong

## PLACE OF LISTING, STOCK NAME AND STOCK CODE

A Shares: Shanghai Stock Exchange
Stock Name: Bank of Communications
Stock Code: 601328

H Shares: The Hong Kong Stock Exchange
Stock Name: BANKCOMM
Stock code: 03328

## OTHER INFORMATION

Initial Registration Date: 30 March 1987
Registration Change Date: 30 December 2008
Registration Agency: State Administration for Industry and Commerce (SAIC), PRC
Business Licence Registration No: 100000000005954
Tax Registration No: 31004310000595X
Organisation Code: 100005595-X

# Awards


*China Banking Association:*
*Best Development Award and Best Performance Award in Syndicated Loan in Chinese banking industry*

*The Wall Street Journal:*
*Top 10 Chinese companies among top 200 leading Asian companies*

*The Banker:*
*The Best Bank in Wealth Management Award*

*Asiamoney:*
*Best Cash Management Award for Large Corporations*

## FORBES
No. 143 in Global Top 2000 and No. 31 in the banking industry

## THE BANKER (BRITISH)
No. 49 in Tier 1 capital among 1000 global banks, No. 11 in market capitalization, No. 16 in profit before tax and No. 56 in total assets.

## THE BANKER (CHINESE)
No. 2 in core competency among national commercial banks, No. 3 in financial review; The Best Bank in Wealth Management Award; The Best Bank in Research; The Bank with the best corporate image; “Win to Fortune” and “OTO Fortune” brands among the best 10 financial products

## FORTUNE
No. 494 in global top 500

## THE ASSET
Best Wealth Management House, China
Rising Star Cash Management, China

## EUROMONEY
“Best Bank in China on Cash Management”

## THE WALL STREET JOURNAL
Top 10 Chinese companies among top 200 leading Asian companies

## 21ST CENTURY BUSINESS HERALD
No. 9 in competency among Asian Banks; Best publicly-held bank; Best design and innovation team and Excellent Wealth Management Team

## CHINA BUSINESS NEWS
Best state-owned bank
Best financial institution in forcasting
Best Analyst in China
“Excellent Enterprise Award” in Chinese Corporate Social Responsibility award

## CHINA BANKING ASSOCIATION
Best Development Award and Best Performance Award in Syndicated Loan in Chinese banking industry

## CHINA FOREIGN EXCHANGE TRADING SYSTEM
The most popular market maker

## MASTER CARD
The Best Platinum Card

*21ST CENTURY BUSINESS HERALD:*
*Best public listed bank*

*The Chamber of Hong Kong Listed Companies:*
*Honourable Mention Award in Corporate Governance Excellence Awards*

*The Asset:*
*Best Wealth Management House, China*

## LEAGUE OF AMERICAN COMMUNICATIONS PROFESSIONALS

2008 Vision Awards Annual Report competition
Platinum Award
Best letter to Shareholders (Silver)
Best letter to Shareholders — Platinum (Asia-Pacific Region)

## MERCOMM, INC (USA)

Silver Award in Best Annual Reports

## ASIAMONEY

Best Cash Management Award for Large, Medium and Small-sized Corporations

## THE CHAMBER OF HONG KONG LISTED COMPANIES

Honourable Mention Award in Corporate Governance Excellence Awards

## SECURITIES TIMES

Best Chinese investment bank in bond underwriting; Top 100 in market capitalization among Chinese listed companies; Best listed company with social responsibility; most popular Chinese corporate website for investors

## THE ASIAN BANKER JOURNAL

Best risk management implementation award in Asia Pacific; cash services achievement award (China); best optimized excellent operation for Chinese retail banks

## CHINA SECURITIES JOURNAL

Top 100 Chinese listed companies Golden Bull Award

## CFO WORLD

Best Supply Chain Finance award; Best Corporate Wealth Management award and Best International Business award

## THE HONG KONG MANAGEMENT ASSOCIATION

Best corporate governance information disclosure award

## CHINA ELECTRONIC FINANCE INDUSTRIAL ALLIANCE

Most popular mobile bank; top 30 in Chinese e-banking industry

## CHINA FINANCIAL CERTIFICATION AUTHORITY

Best Chinese online bank award

# Chairman's Statement

Hu Huaibang
Chairman

Looking back upon 2009 while we are at the beginning of 2010, it inevitably stirs our emotions. In the most difficult year of economic development since China entered into the new century, it is the first time that the China banking industry, after its further progress in the share system reform, faced so many new challenges in its quest for counter-cyclical growth amidst global financial crisis and economic slowdown. In this disturbed and unusual year, the Bank managed to improve in such a tough situation, with its operational management gaining the momentum to achieve both quality and efficiency as well as steady development. Such achievement is due to many factors, including the strong leadership of the Central Government and regulatory authorities, the continual support from our shareholders and customers, and the hard work and loyalty from all our staff.

## OPERATING RESULTS

At the end of 2009, total assets were more than RMB3.3 trillion and annual net profit was more than RMB30 billion. The Bank's market share in the business of RMB-denominated savings and loans increased by 10 basis points and 45 basis points respectively. Return on Average Asset ("ROAA") was 1.01% and Return on Average

Equity ("ROAE") was 19.49%. Because of the satisfactory results, the Bank's A share price increased by 97.26% and H share price increased by 61.18%, which outperformed the Shanghai Composite Index and the Hang Seng Index. In order to share our fruitful result with the shareholders promptly, we will, like 2008, declare interim and final dividends in 2009, which was uncommon among the Chinese banking industry.

## DEVELOPMENT STRATEGY

As Sun Tze's Art of War expounds "the general must be adaptable in the formulation and execution of strong strategies." To make a dream come true, one needs to formulate and execute efficiently a right strategy. From 2008, we have formulated the strategy of being a "a first-class publicly-listed universal banking group with niche in wealth management and aim for international expansion". ("International first-class universal banking group featured in wealth management"). Based on this, we have carefully planned, developed, and achieved the following satisfactory results in 2009:

1. Internationalisation of the Bank was accelerated through ongoing emphasis on expansion for subsidiaries. The establishment and upgrade of branch offices in Sydney, Singapore, San Francisco, Ho Chi Minh City, London and Taiwan has begun. A global network "using Asia Pacific as its main center, with Europe and America as supporting wings" is taking shape. The strategic alliance between the Bank and HSBC moved to a higher level, with further sharing of HSBC's wide international network and customer resources. Furthermore, the Bank has learnt from HSBC's advanced knowledge and technologies, resulting in higher level of and more globalised bank management.

2. New breakthroughs in universal operational integration. The Bank was the first to receive an insurance license among domestic banks, the universal operation platform on which integrated operations continued to be enhanced. The Bank's funds, trusts, leasing, offshore securities and insurance subsidiaries grew rapidly. Amongst them, Bank of Communication Schroder Fund Management Co. Ltd. was one of the top 10 domestic fund managers. The total assets of the Bank of Communications Financial Leasing Co. Ltd. also exceeded RMB15 billion, and its average leased assets balance exceeded RMB11.9 billion.

3. More prominent characteristic of wealth management. Wealth management businesses such as "Win to Fortune", "OTO Fortune", "BOCOM Fortune" grew rapidly. The Bank was renowned for "the Best Domestic Bank in Private Wealth Management" and "the Best Chinese Bank in Wealth Management" by domestic and international reputable media. The brand image and the service quality of the Bank's wealth management services were further enhanced.

4. Enhanced image of a first-class publicly-listed banking group. The Bank was renowned as "the most efficient bank", "the best state-owned bank" and "the best publicly-listed bank". Moreover, the Bank was included in the "Fortune Global 500" for the first time and "Top 50 Global Banks" by the British *Banker* magazine, thus enhancing the Bank's status as an active international bank.

Numbers are monotonous, but are convincing, which I am pleased to share with the shareholders here. In 2009, our foreign branches realised net profit of RMB1.394 billion in 2009, an increase of over 16 times as compared to the previous year. All subsidiaries realised a net profit that is attributable to the Group of RMB582 million, an increase of 143.51% as compared to the previous year. Net fee and commission income of the Bank was RMB11.399 billion, an increase of 2.53 percentage points in proportion of total revenue as compared to the previous year. The proportion of, the number and that of total assets from, middle to high-end private clients increased by 0.98 and 2.3 percentage points respectively. These figures are the results of the tremendous effort and commitment of our staff in realising our strategy of an "International first-class universal banking group featured in wealth management". This is also the foundation for our future achievement and success.

## RISK MANAGEMENT

The importance of risk management to commercial banks is obvious after experiencing the global financial crisis and economic downturn. The best way to balance risk management and business growth becomes an important topic for corporate leaders. It is a weakness in human nature that greed overcomes fear, or we will hesitate when real opportunity arrives. As a result, successful risk management requires a leader to perfectly combine rigorous establishment of strict measures, strong organisational skill and execution ability, and precise knowledge of the external environment.

Based on the principles above, in 2009, the Bank continued to work on the maintenance of capital and liquidity levels, a robust corporate governance framework, and a stable business model and asset-liability structure, through establishment of strict measures and flexibly adjusting operations. These include:

- Implementing a Enterprise Risk Management Plan 2009–2011 and an overall framework to implement New Basel Capital Accord. This helped to lay a strong foundation for the promotion of comprehensive risk management and the compliance of the requirements in the New Basel Capital Accord.

- Further enhancing our risk management system framework with the objective of "comprehensiveness, intensiveness and matrix-based". We adopted a "hierarchical" risk management structure as a foundation, and built a "four-tiered" risk management system based on "four layers of defences" and established and implemented a dual reporting system that is all-encompassing and standardised.

It is reassuring that the Bank's board and senior management is forward-looking and sensitive in the face of the complicated economic environment and volatile market situation. They actively controlled the pace and adjusted the business structure flexibly, and effectively averting various risks associated with global economic downturn and rapid credit growth. In 2009, our impaired loans experienced a "dual-decrease", with year-end impaired loans balance decreasing to RMB25.009 billion and year-end impaired loans rate dropped to 1.36%. The Bank's provisions coverage reached 151.05%, which maintained sustainable growth of asset quality in face of the crisis.

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Confucius said, "There are three types of friends that you can benefit from. Befriend the righteous, honest and knowledgeable." I strongly agree to this by drawing from my personal experience as Chairman of the Bank for more than a year. The directors of the Board and the members of the senior management team are all greatly experienced in economics and finance. They are hard-working and professional, wise and spared no effort in the proposals of implementing the reforms and development within the Bank. They are compassionate, selfless and have great respect to all, as we cooperated seamlessly to improve the Bank's operation and management. Their expertise and knowledge enabled them to detect and react to the slightest market change. Moreover, the selfless contribution from nearly 80 thousand staff of the Bank was an unceasing source of the sustainable growth of the Bank. With such a tremendous team in place to work with, I firmly believe that our future will continue to be successful!

At the end of 2009, Mr. Li Jun resigned from the post of Vice Chairman and President of the Bank due to reassignment and Mr. Niu Ximing became his successor. Mr. Li had diligently and professionally served the Bank for 19 years and made great contributions to the Bank's reforms and development. In particular, he showed great responsibility, leadership and astute market insights while dealing with the crisis in 2009, thereby making an outstanding contribution to the Bank's performance in 2009. I am truly delighted to have worked with such an extraordinary banker and on behalf of the Board and staff of the Bank, I wish to express our sincerest appreciation to Mr. Li Jun.

Mr. Niu Ximing has vast working experience within the financial industry and is knowledgeable about the principles behind economic, financial development, operations and management of commercial bank. He has shown great professionalism and strong leadership since the undertaking of his new job. I strongly believe that he will continue to lead senior management capably in the Bank's reforms and development, so as to take the Bank's performance to new heights!

## CORPORATE SOCIAL RESPONSIBILITIES

"Two things become more awe-inspiring when we reflect upon them more often: starry heavens above us and the morals within us" wrote Immanuel Kant. Applying to the Bank, its growth stems from the continued growth of the Chinese economy, in concert with a harmonious and stable society. For the Bank, it is both its moral responsibility as a corporate citizen, and also its objective prerequisite for growth to safeguard the economic development and national economic security. In 2009, in light of global economic crisis and downward pressure of real economy, we implemented policies of the Central Government closely to "maintaining growth, boosting domestic demand and adjusting structure." This also contributed to stable and rapid development of economy through stable growth of our business:

- Responding to the 4-trillion-yuan national stimulus plan and expansion of our credit support for economic development, while continuing to explore business opportunities. In 2009, we combined macroeconomic policy guidances and the operational characteristics of the economy, to support businesses involved in major infrastructure projects. Loans advanced to infrastructure industries including transportation, power generation, public utility, construction and energy projects exceeded RMB197.679 billion, equivalent to 53.00% of all the new loans.

- Supporting the national measures to assist "agriculture, farmers and the countryside" and small-and-medium-sized businesses, in order to provide equal assistance to develop all social groups. At the end of 2009, our agriculture-related loans balance was RMB249.279 billion, an increase of 47.14% from the beginning of the year; loans to small businesses was RMB39.546 billion, an increase of 132.86% from the beginning of the year. Amongst these, the "Zhan Ye Tong" loans support financing, settlement, cash management services and wealth management for small businesses. It also showed significant increase with a balance of RMB39.071 billion, an increase of 154.70% as compared to the beginning of the year.

- Supporting the national strategy of balanced and harmonised economic development across regions, we actively participated in regional development and simultaneously realised optimisation of regional structure and client structure. Especially in early 2009 when the Central Government made the decision to build "Shanghai Two-Center", the Bank, as the sole listed bank headquartered in Shanghai, signed a Memorandum of Comprehensive Cooperation with the Municipal Government of Shanghai. This agreement helped to accelerate the development of the Bank into a financial flagship to commensurate with Shanghai's status as the global financial center a goal that we will fight for. On the other hand, this is also the potential future development opportunity of the Bank.

- Strictly adhering to the national industrial policies with the "Green Credit" standardisation, thereby continuously improving asset quality while promoting sustainable development. In 2009, the Bank exited 45 projects in restricted and prohibited categories listed by the State and also decreased RMB506 million in credit, resulting in a decrease of 0.12 percentage points in the proportion of industry-wide loans.

Other than contributing to the economic development through our services, the Bank also helped the poor in various ways, in order to share our prosperous results with all. In 2009, the Bank granted loans and made donations to RMB135 million, amounting to RMB2.20 per share, a stable increase from the previous years. The loans and donations were used to support education, natural disaster recovery, reconstruction of post-earthquake areas, and help the poor.

## MACROECONOMIC AND FINANCIAL SITUATION

The global financial crisis caused trillions of losses to the world economy over the last year and wreaked havoc on the global economic and financial system and development trend. With recovery from the economic trough, the development of the banking and financial industry moved into the "post-crisis" and will face new opportunities and challenges ahead.

Externally, the international macroeconomy is still facing many complexities and uncertainties. Although the economies of most of the economically developed countries have stepped out of the recession, the basis for the growth is still fragile. Prices of major international commodities, such as petroleum, and the US dollar exchange rates are more volatile and crises regarding potential default of sovereign debt arise from time to time. Sustained economic recovery is still not apparent, and may embark upon a winding path, with regional financial risks not entirely eliminated.

In terms of China's domestic economic development, the Chinese economy is among the first to enter into the "post-crisis" era. As basic economic factors are steadily improving, promoting changes in development model and restructures of the economy become the key areas for macroeconomic policies. Export experienced mild recovery, investments cooled and domestic consumption became the new engine of growth. The Chinese economy will gradually enter into the phase of balanced growth, powered by investment, consumption and export. The Bank's future growth model, its business structure and sources of profit will adapt to the changes accordingly.

From the perspective of credit and capital markets, there is adequate market liquidity, increasing pressure from expected inflation and asset price bubbles, and the more flexible and targeted macroeconomic policies were adopted and, there are more requirements on the management of commercial banks. Key measures such as enhancing the capital adequacy ratio, strengthening core debt bearing capabilities, consolidating the client base, adjusting the business structure, creating new businesses, enhancing pricing flexibility and interest spreads, mitigating risk and minimising credit cost will continue to be the focus of the Bank for improving its core competitiveness and the realisation of higher profit target.

## PROSPECTS

Every crisis is a correction of the previous path, and each newly developed path has the inheritance of the previous one. Although financial innovation was initially being doubted owing to the global financial crisis, which even led to the slow down of financial globalisation and the discontinuation of related business lines. However the Bank, based on its observation of the history of financial development, believes that financial innovation will continue to power the development of the economy and finance, while globalisation and integration are still the drivers for the future development of the financial industry. The Bank will forge ahead with innovation and optimisation of its development plans, profit models and business structures, while implementing its strategy of becoming "an internationalised and integrated first-class bank focused on wealth management".

- Continuing own support to the macroeconomic policies of the Central Government, maintaining a suitable growth rate and a balanced development structure. On the one hand, the Bank will strictly adhering to the guidance of state policies, the Bank will continuously optimise its credit structure, increase its credit support to strategic emerging industries such as low-carbon economy, "agriculture, farmers and the countryside", small businesses and personal consumption. On the other hand, the Bank will complete its rights issues of A shares and H shares to increase its capital strength and improve its management of liabilities, in order to provide adequate and stable liquidity for the healthy and rapid growth across all business lines.

- Adapting to the latest characteristics of economic and financial developments to accelerate its strategic transformation. This will lay a firm foundation for sustainable development. On the one hand, the Bank will realise its balanced development in scale, quality and efficiency by strengthening its management of pricing and innovation in business. On the other hand, the Bank will strengthen its fee-based businesses, and focus on the uniqueness of wealth management business in order to explore opportunities within and further cultivate new sources of profit.

- Continuing the implementation of the strategy of becoming an "International first-class universal banking group featured in wealth management" by expanding its international and integrated network platform to enhance its competitive advantage. First, the Bank will strengthen its international network and management advantages, upgrade the businesses of its overseas subsidiaries, enhance its strategic alliance with HSBC and improving the globalisation of its management practices. Second, the Bank will strengthen its advantages on integration of operations by further widening the comprehensive service platform and accelerating the comprehensive development of its subsidiaries. Third, the Bank will utilise its international and universal operation platform and its advantages to accelerate the launching and development of its wealth management products and services, while further increasing its core competitiveness in wealth management.

- Continuing to strengthen risk management and internal control by capitalising on the opportunity of implementing the New Basel Capital Accord and speed up the development of a comprehensive "post-compliance" risk management framework. We will keep a close eye on key risk areas, strengthen the process for credit risk management, boost our liquidity risk management and monitoring, optimise market risk management and measures and emphasising on compliance risks by continuously improving our internal control.

- Accelerating structural innovations and improving management competency. The Bank will steadily implement the Organisation Structure and Process Optimisation project, the Human Resources and Performance Review Optimisation project, the Industry-wide Operation System Development project, the Product Business Innovation Management project, the Global Client Comprehensive Liability Management System project and the New-generation Overseas Branch Information System Building project to form a concerted, efficient and easy-to-manage operation and management framework and thus providing a firm foundation for business and strategic developments.

- The Bank will capitalise on the opportunities presented by the construction of the "Two-Center", to engage in the process of constructing Shanghai as a financial center, and to develop its niche in shipping financing. This will help to transform the Bank into a financial flagship commensurate with Shanghai's future position as an international financial center. As the sole global commercial banking partner of 2010 Shanghai World Expo, the Bank will strive to provide first-class financial services for the Expo. This is not only a social responsibility, but will also help to propel the Bank's development into 2010 and beyond.

"Thousands of ships sail past a sunken boat and thousands of trees will blossom again in spring after a plagued tree." After the severe challenges posed by the global financial crisis, the international banking industry will surely embrace a new era of prosperity. Through this crisis, the Chinese banking industry has gained maturity and confidence. For the future development, the Bank's objectives has become clearer and the pace is more balanced, the rhythm is steadier, and the attitude is more prudent. The Bank will remain steadfast in its work, improve its management capabilities and accelerate its restructuring. In tandem with the Bank's implementation of the "International first-class universal banking group featured in wealth management" strategy, the Bank will progress well into the new century!

*Chairman*

**Hu Huaibang**

# President's Statement

Niu Ximing
President

In December 2009, I succeeded Mr. Li Jun and became President of the Bank with the trust and confidence from the Board of Directors and I was honored to lead the operations and management of the Bank, which is an excellent commercial bank with both an illustrious history and innovative ideas. This is also a tremendous responsibility for me.

Representing the senior management of the Bank, I report the following summary to all classes of the society on the Bank's operation and management in 2009:

In 2009, facing the complex situation of continuing financial crisis and both international and domestic economic downturn, the senior management of the Bank, in accordance with the decisions and planning of the Board of Directors, adjusted its strategies according to the demands of the economic situation and controlled the pace of its development. The Bank experienced rapid growth in certain major business areas, increased its market share, as it continually improved its business structure. It further stabilised asset quality and strongly promoted front-line management. As a result, both quality and efficiency were improved in its operations and management.

## DEVELOPMENT: GROWTH OF BUSINESS SCALE AND STEADY IMPROVEMENT OF PROFITABILITY

The Bank seized the opportunities that resulted from the policy measures of "maintaining growth, boosting domestic demand and adjusting structure" of the Central Government, by actively extending more credit with prudence, starting more specific financial services and refining the management of its businesses to continue our stable momentum of growth.

Market share of our major businesses increased. As at the end of 2009, total assets, client deposits balance and client loans balance reached RMB3,309.137 billion, RMB2,372.055 billion and RMB1,839.314 billion respectively, or increased by 23.56%, 27.13% and 38.44% respectively. Our market share in the RMB deposits market was 5.75%, an increase of 0.10 percentage points as compared to the previous year, of which, our market share in savings deposits market also increased by 0.09 percentage points as compared to the previous year to 4.14%. Market share in the RMB loans market reached 6.55%, an increase of 0.45 percentage points as compared to the previous year, of which, market share in the middle-to-long term personal consumption loans market reached 4.65%, an increase of 0.54 percentage points as compared to the previous year.

Market position for various strategic businesses was enhanced. Fees and commissions increased 28.99% as compared to the corresponding period of the previous year, being one of the best among its peers, and its proportion in total income increased 2.53 percentage points. Our bond underwriting business ranked in the top 3 in the market and its margin deposits for futures by volume ranked No. 1. Number of issued wealth management products also led the industry and income derived from sales of insurance doubled despite the overall decline in the market. Activities in the financial market continued to rank in the top 5. For yields from bond investments, we were also leading the industry. International settlements increased by 2% despite the sharp drop in foreign trade. Non-listed asset management business experienced substantial growth, resulting in the scale of management reaching a historic high.

The Bank's profitability remained stable. Our net interest spread and net interest margin are increasing every quarter. During the year, net profit reached RMB30.118 billion, an increase of 5.59% as compared to the previous year. ROAA and ROAE reached 1.01% and 19.49% respectively, which are on par with established international banks. In addition, cost-income ratio was 39.25%, a decrease of 0.39 percentage points as compared to previous year.

## RESTRUCTURING: RECOGNISED OPERATION CHARACTERISTICS AND OPTIMISED BUSINESS STRUCTURE

The Bank carried out the development strategy of becoming a "a first-class publicly-listed universal banking group with niche in wealth management and aim for international expansion" and registered significant progress in restructuring. It also developing its own characteristics in operations with adjustment in business structure. These were achieved by adapting to the different trends of development of the industry structure as a result of the financial crisis.

The Bank made breakthroughs in its internationalisation and domestic of its operation. It became the first amongst domestic banks to successfully acquire a stake in an domestic insurance company, established a representative office in Sydney, which enhanced the universal operation platform and foreign operations network. All subsidiaries achieved their business targets in expanding market share, while continuing to deepen relationships with the Group's major businesses, resulting in an increase of 1.09 percentage points in their contribution to the Group's profit. In particular, Bank of Communications Schroder Fund became top 10 in the industry and is a leading bank-affiliated fund in terms of the scale of asset management. Businesses in overseas branches also experienced a strong rebound with profit-levels reaching historic high and increased 4.35 percentage points in its contribution to the Group's total profit as compared to the previous year. Additionally, the credit card business unit in cooperation with HSBC, registered a profit ahead of schedule.

The operational characteristics of wealth management was widely recognised. The main brand of the Bank "Win to Fortune" became more well-known in the market. "Win to Fortune" accounts won various awards in the industry, including "the Best Chinese Bank in Wealth Management" by the *Euromoney* magazine and the *Asia Money* magazine. "Win to Fortune" also made breakthroughs in industries such as engineering equipment, port logistics, pharmaceuticals, fertilisers and food industry, with combined solutions such as domestic factoring, commercial notes repo, purchase order financing and thus became an important product that extended services to our small business clients. The "OTO Fortune" and "Bankcomm Fortune" brands have continually increased their influence. With the launching of a new brand "Express Fortune", the Bank was the first in the to establish a complete system of personal service brands covering high-end, middle-end and mass markets. The proportion of high-end and middle-end clients increased by 0.98 percentage points and the proportion of their assets in total assets increased 2.3 percentage points.

The Bank's asset structure improved continuously. The Bank modified its directive of credit granting, with specific emphasis on projects which involved major government investments, industries with comparative advantages, industry technology upgrading and environment improvement. It also actively reduced its support extended to industries with excess capacity. The proportion of loans to infrastructure projects such as transport, power generation, public utilities, construction and energy increased by 1.99 percentage points, while the proportion of loans to the manufacturing industry decreased by 3.62 percentage points. The proportion of medium-to-long-term RMB loans increased by 10.88 percentage points, while the proportion of secured loans increased by 1.69 percentage points. The quality of the Bank's credit assets improved against risks as a result. The Bank also actively developed its retail credit business, for example, the "Zhan Ye Tong" loans, which caters for medium-to-small-size businesses, grew 154.70%. "E-Credit", the innovative roll-over loan product that serves personal clients, had new loans of RMB6.95 billion during the year. Housing mortgage loans grew by 59.52%.

## MANAGEMENT: ACHIEVE A BETTER FOUNDATION FOR DEVELOPMENT WITH ADEQUATE OPERATION RISK CONTROL

The Bank has a long-term perspective, where we strongly promote process optimisation and product innovation, and strengthen our risk management and internal control systems. Sound infrastructure and risk management provides a foundation for stable long-term development.

The Bank's integrated service capabilities improved continuously. The Bank accelerated the enhancement of its electronic network and functionality, where a powerful new-generation mobile banking product "e-Mobile BOCOM" was launched, opening-up an exclusive channel for high-end and middle-end clients. The number of transactions through electronic channels made up 49.7% of total number of transactions. The Bank implemented business process restructuring and front-end integration, and accelerated product and service innovation. The Bank was an approved market maker in the national interbank bond market and was amongst the first to acquire the qualification to provide cross-border trade RMB settlements services and foreign currency clearing services. The Bank is also the only authorised bank to provide domestic banking services to all overseas exhibitors, related foreign business operations and other business operations of the Shanghai World Expo. We successfully launched a cross-branch cash management platform and a new "e-payment" settlement product. We started currency options trading for personal accounts and gold futures trading. The Bank improved its level of information technology, upgraded its main system and started construction of a new-generation IT system for its overseas branches. The Bank was first in the industry to realise the "having two information systems operating simultaneously for the same city" for its core business system, constructing an integrated and centralised production operations and control platform.

The Bank enhanced its construction of comprehensive risk management system. Fine-tuning the decision making mechanism of the senior management risk management committee. We carried out quarterly reviews on credit, market and operational risks and the Bank published a risk management directive for subsidiaries and guidelines for industry-specific risk management, promote comprehensive risk management specifically for overseas branches and all subsidiaries. We accelerated work to achieve compliance with the New Basel Capital Accord, to achieve integration of internal ratings system and credit management system. A leading collaterals management system and a loan utilisation monitoring system were also built. Areas with Imminent risk were identified, which effectively combined with the working models for routine risk filtering and specific risk reviews. We have successfully tackled the periodic economic downturn with rapid credit expansion. There was a decrease of RMB511 million for impaired loans with a decrease of 0.56 percentage points for its proportion in total loans as compared to the beginning of this year.

2009 was a year that the Bank's capability of carrying out its operations through economic cycles was put to the test. We are able to present such an excellent result to satisfy the Board of Directors and to fulfill our promises to the shareholders mainly due to stable growth of the Chinese economy and the successful policies of the Central Government. These, together with the great support from clients, investors and the society, as well as the mutual assistance from HSBC, our strategic partner, combined with the brilliant work and intellectual burden of nearly 80,000 employees of the Bank. I, on behalf of the senior management, should thank our friends from different industries and all employees of the Bank, especially, Mr. Li Jun, my predecessor, for his excellent service and contributions over the years.

## PROSPECTS: OPERATING ENVIRONMENT IMPROVING AND STRONG GROWTH EXPECTED

In 2010, the global economy is expected to embark on a path of recovery, led by the US economy. China, where the major business of the Bank is based, is expected to be the first to step into the "post-crisis" era, while the Chinese economy stabilises and rebounds. The overall operating environment for the banking industry will improve because of the improvement in basic economic environment and economic structure. The Bank will also see opportunities to enhance its pricing capabilities and increase its interest spreads with the strong demand for credit coupled with controls over the size of total credit, the Bank's profit is expected to continue to grow rapidly. However, the initial change in economic trend may also present increasing complexities in decision-making and divergence of the market. These will present bigger challenges to the Bank in terms of strategising, resources allocation and risk management.

Facing more complicated operating environment, the senior management of the Bank will combine our steadfast development strategy with our flexible operation tactics. Based on the diligent implementation of the strategy to build the Bank into an "International first-class universal banking group featured in wealth management", we will, on the one hand, adapt to the changing conditions and improve in the targeting of operations and risk management, and on the other hand, we will continue to build a strong foundation for development and improve management skills for the long term development by:

- Implementing a total flow integration of credit management. Constructing a full asset management system, and implementing a detailed loan granting and pricing management. We will continue our innovation in credit products and financial services, improving the independence, professionalism and effectiveness of credit approval process. We will optimise credit management system, enhance our daily-control and risk reviews and further improve quality and efficiency of business development.

- Building a differentiated service for our wealth management business. We will focus on private banking services as a break-through point and launch cross-border comprehensive wealth management services, establishing a high-value-added products and services system, we will strengthen our specific marketing strategies to target clients and further build our image as a high quality bank.

- Nurturing our advantage in future development channels. We will build a Group-wide unified modern IT framework. Catering to client experience, we will build an easy-to-use and powerful electronic transaction platform for all channels to improve the organic cooperation between branches and our e-banking business.

- Fulfilling all the duties as the global commercial banking partner of the Shanghai World Expo. We will provide excellent financial services for the Expo to showcase the image and strength of the China banking industry to the world.

There is a Chinese saying that, "Do diligently and you will succeed; walk tirelessly and you will arrive." Since I started my job, with the support of the senior management, all the staff has cooperated well with each other. The operation and management are awaiting to progress and the Bank enjoys a sustained prosperity. All these boost our confidence to perpetuate the work carried from our predecessors and continue the success of the Bank. The senior management will continue to draw from the support from the government, clients, shareholders and staff, so as to realise our core belief in both stable operation and innovative reforms. We will make the Bank bigger, stronger, more professional with more niche businesses and to realise a high-quality development with growth and stability, to reciprocate the tremendous trust and support from all with continued better performance!

*President*

**Niu Ximing**

# Chairman of the Board of Supervisors

Hua Qingshan
Chairman of the Board of Supervisors

**“In 2009, in accordance with the requirements such as the Company Law, the Bank’s Articles of Association etc., the Board of Supervisors monitored the Board of Directors’s execution of resolutions approved by the Shareholders’ General Meetings and other decisions made within the Board’s authority.”**

*Overcome challenges and endeavour to transform business structure*

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. OVERVIEW OF ECONOMIC, FINANCIAL AND REGULATORY ENVIRONMENT IN 2009

In light of the continued adverse effects resulting from the global financial crisis, and severe economic recession faced by the global economy, the Central Government of the PRC persisted with its proactive fiscal policy and moderate-expansionary monetary policy. Furthermore, the Central Government of the PRC has introduced a highly successful plan to stimulate the economy with the broad aim of "protecting growth, adjusting economic structure, and promoting the well-being of the people". Consequently, the Chinese economy is among one of the earliest economies that is moving towards overall recovery. Annual Gross Domestic Product ("GDP") amounted to RMB33,535.3 billion, an increase of 8.7% from 2008. Producer Price Index ("PPI") and Consumer Price Index ("CPI") also rebounded strongly at the end of last year. Total retail sales of consumer goods and fixed asset investments increased by 15.5% and 30.1% from last year. Total imports and exports amounted to US$ 2,207.3 billion and has been declined on a quarterly basis.

In 2009, the People's Bank of China implemented moderate expansionary monetary policy and strengthened the integration and harmonisation of its monetary, fiscal and industrial policies. The People's Bank of China was also actively involved in providing guidance to financial institutions on the pace of granting credit, optimising credit structure, and minimising credit risks, in order to provide a favorable currency and financial environment for economic development. At the end of the year, broad money supply (M2) balance was RMB60.6 trillion, an increase of 27.7% as compared to the end of last year and narrow money supply (M1) was RMB22.0 trillion, an increase of 32.4% as compared to the end of last year. The growth rate for both M2 and M1 also increased on a quarterly basis which represented greater liquidity.

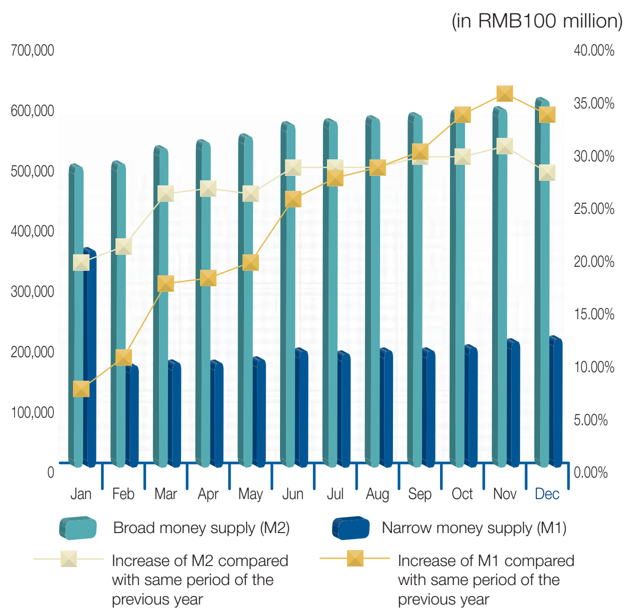



Chart: January to December 2009 trend for M1, M2, and growth rate as compared to 2008.
Prepared based on data available from the People's Bank of China

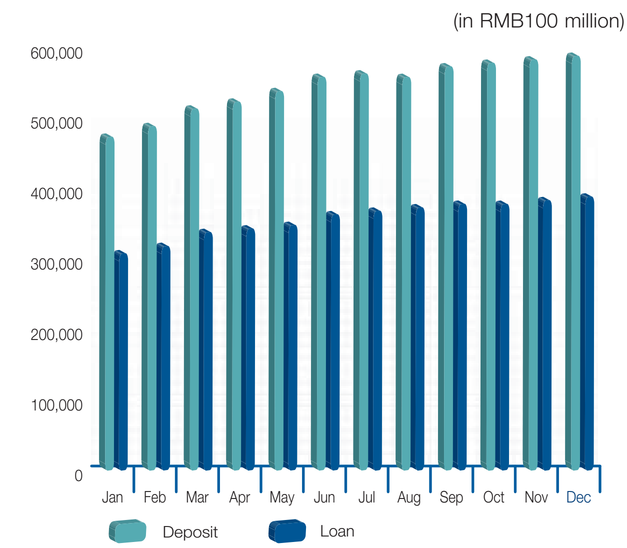



Chart: Customer deposits, and loans and advances balances January to December 2009 as compared to the beginning of the year.
Prepared based on data available from the People's Bank of China.

Customer deposits in financial institutions experienced rapid growth. Customer deposits are mainly in the form of current and savings deposits, instead of fixed deposits. At year end, total customer deposits amounted to RMB59.8 trillion, an increase of RMB13.1 trillion as compared to the beginning of the year. Among these accounts, corporate demand deposits increased by RMB3.1 trillion, while personal demand deposits increased by RMB1.1 trillion as compared to the respective figures of the previous year. Loans to financial institutions also increased rapidly. At year end, these loan balances amounted to RMB40.0 trillion, an increase of RMB9.6 trillion or an increase of 31.7% as compared to the previous year. Loans and advances (including discounted bills) to small and medium-sized banking corporations increased by RMB3.4 trillion or 30.1% as compared to the previous year, which represented increasing credit supports for small and medium-sized enterprises.

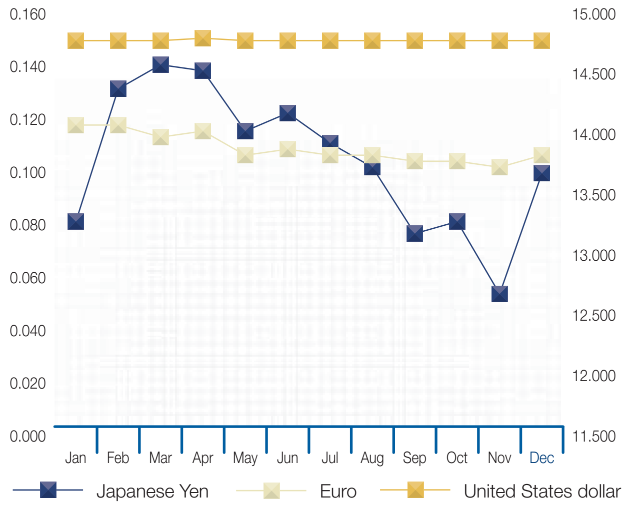



Chart: Exchange rate between RMB and major currencies from January to December 2009

Prepared based on data available from Bloomberg

The exchange rate for RMB, however, was stable at a reasonable level. At end of the year the mid-rate was RMB6.8282 for one United States dollar, an increase of 64 basis points. The rate of appreciation was 0.09%.

Due to the stable recovery of the external economy, high level of market liquidity and other positive economic factors, the stock markets became more active. Consequently, the main indexes for various stock markets moved upward in a volatile manner. The Shanghai and Shenzhen stock markets saw aggregate transactions of RMB53.6 trillion during the year, an increase of RMB26.89 trillion as compared to the previous year. Average daily transactions increased 100.7% to RMB219.7 million comparing to the corresponding period in 2008. The Shanghai Composite Index and Shenzhen Composite Index closed at 3,277.14 and 13,699.97 respectively, or an increase of 79.98% and 111.24% respectively as compared to the end of last year.

## 2. GROUP OPERATION OVERVIEW

The Group had closely aligned itself to the strategic policies introduced by the Central Government. Additionally, the Group has performed in-depth analyses on economic conditions and its market competitiveness, and made timely adjustments to its business strategy. Moreover, it moderated its pace of growth and development, and responded to market conditions flexibly. This resulted in significant


improvement in the Group's business scale, steady improvement in its profitability, and continued improvements in both its quality and efficiency. The Group's total assets increased by 23.56% from the beginning of the year to RMB3,309.137 billion at the end of the Reporting Period. At the same time, customer deposits increased by 27.13% from the beginning of the year to RMB2,372.055 billion at the end of the Reporting Period. Customer loans and advances (before provision for impairment, same applies hereinafter, unless otherwise specified) increased by 38.44% from the beginning of the year to RMB1,839.314 billion at the end of the Reporting Period. Net profit for the year increased by 5.59% as compared to the previous year, to RMB30.118 billion. Net operating income increased by 5.57% as compared to the previous year to RMB81.578 billion. The proportion of impaired loans had also decreased by 0.56 percentage points to 1.36% since the beginning of the year. Provision coverage of impaired loans has increased by 34.22 percentage points from the beginning of the year to 151.05%.

## 3. GROUP PERFORMANCE REVIEW

### Fully supporting the Central Government's economic development strategies and improve performances significantly across various business lines

The Group developed measures and plans focusing on "maintaining growth, boosting domestic demand, and adjusting structure", by implementing Central Government's moderate expansionary monetary policy and industrial policies. Thus, the Group adjusted its focus in a timely fashion and increased support for economic developments, which led to a significant growth across key business lines. As at the end of the Reporting Period, customer deposits increased by 27.13% from the beginning of the year to RMB2,372.055 billion. Loans and advances increased by 38.44% from the beginning of the year to RMB1,839.314 billion. Annual increment of both deposits and loans exceeded RMB500 billion. Market share for RMB deposits and loans, compared to the beginning of the year, increased by 10 and 45 basis points respectively. Strong momentum in new business development, investment banking, institutional business further consolidated the Group's dominant position. The amount of bonds underwritten by the Group was 2.33 times the amount

for last year. Overall, it ranked third in the underwriting market (including short-term financing bills, medium-term notes and financial debts of finance companies). Its volume of margin deposits for futures also ranked first. The total number of issuance of financial products was ranked among the top in the market. Despite general decline in the insurance market, income derived from sales of insurance products almost doubled as compared to the previous year. In addition, credit cards issued by the Bank exceeded 15 million, with average outstanding receivables among market leaders. Overall, the Group's activities in the financial market had continued to improve. Additionally, the Group was approved as a national interbank bond market maker, and ranked third among all bond market makers. The volume of international settlement business increased by 2% despite the general downward trend of the market while the Group's market share continued to increase. Custody for non-public funds experienced substantial growth, resulting in assets under management reaching the amount of RMB623.158 billion, which is an all time high. As one of the four Chinese banks with offshore business license, its offshore business also achieved rapid development.

Due to its rapid and stable growth across all business lines, the Group's operating income and net profit has been increasing steadily. Net profit for the year increased by 5.59% as compared to the previous year to RMB30.118 billion. Net operating income increased by 5.57% as compared to the previous year to RMB81.578 billion. Net interest income for the year increased by 1.22% as compared to the previous year to RMB66.668 billion, despite the sharp narrowing in interest margin. Net interest income for the fourth quarter increased by 12.12% as compared to the third quarter to RMB19.495 billion. Net interest margin thus reached its lowest in the second quarter, but subsequently rebounded on a quarterly basis. Net interest spread and net interest margin have increased by 29 and 28 basis points respectively as compared to the third quarter.

## Improving quality and results through transformation and structure optimisation

The Group carefully analysed the market environment to capitalise on potential opportunities. This enabled the Group to enhance its quality, growth and profitability through business transformation and optimisation of its credit portfolio.

As part of its business transformation initiatives, the Group continued to develop its fee-based business with a focus on increasing the proportion of non-interest related income. During the Reporting Period, fees and commissions business increased by 28.99% as compared to the previous year to RMB11.399 billion. This offset the adverse effect of narrowing interest spreads on the growth in profitability of the Group. Net fee and commission income accounted for 13.97% of the Group's net operating income, an increase of 2.53 percentage points as compared to the previous year, and highlighted its continued enhancement of revenue structure. Among the fees and commissions income, consultancy income rose by 77.61%. Contribution from settlement services, agent services and bank card business also continued to improve.

The Group extended credit reasonably while optimising its credit portfolio. In respond to the uniqueness of a post-crisis economy and the national policy of "maintaining growth, boosting domestic demand and adjusting structure", the Group formulised credit granting policies to help optimised the credit portfolio and increased credit support to key development areas supported by the Central Government. Concurrently, the Group also implemented more stringent credit control on risky credits such as industries with overcapacity. Thus, loans to infrastructure developments such as transportation, power generation, public utilities, construction and energy increased by 1.99 percentage points as compared to the beginning of the year, while loans to the manufacturing sector dropped by 3.62 percentage points as compared to the beginning of the year. At the same time, the Group continued its support of new rural-based financial institutions such as Changshu Rural Commercial Bank Co., Ltd. and Dayi Bocom Xingmin Rural Bank. Loans to agricultural sector increased by 47.14% as compared to the beginning of the year. The Group took a innovative role in credit support for small enterprises and residential consumption with whose application process simplified. "Zhan Ye Tong" loans increased by 154.70% as compared to the beginning of the year. The "E-Credit" product rolled out at the end of 2008, which catered for residential consumption, and increased the total outstanding loan by RMB6.95 billion in 2009. Housing mortgages and credit card loans also increased by 59.52% and 50.07% respectively as compared to the beginning of the year.

## Insisting on the balance between business development and risk management to ensure stable asset quality

The Group proactively supported national economic growth and rapid credit growth firmly, effectively promoted comprehensive risk management and control measures, and promptly adopted capital supplementing measures. These enhanced protection from risk and maintained a balance of scale and quality.

The Group implemented the “Enterprise Risk Management (ERM) Plan 2009–2011” and the fulfillment of “the New Basel Capital Accord” to strengthen its risk management and internal control. The Group integrated its internal evaluation and credit management system. With the market risk management system further developed, pilot implementation of the risk management tools were carried out. Overall, the risk management system is improved. Phase one of a collateral management system, post-lending monitoring system, an anti-fraud system, and a market risk management system are now in operation. The Group achieved breakthrough over the integration of risk management systems. Moreover, the Group designed risk-specific prevention measures in order to strengthen its monitoring of new lines of credit and credit granting within branch operations. For specific risk factors, the Group carried out in-depth specific investigation. The Group started to work on the prevention and control of such risks and ensured adherence to a risk-based audit framework. The compliance review for new businesses and new products was strengthened, and warnings against potential compliance risks promptly issued. As at the end of the Reporting Period, the Group’s outstanding balance of impaired loans had decreased by RMB511 million as compared to the beginning of the year. The impaired loans ratio had decreased from 1.92% to 1.36%, representing a decrease of 0.56 percentage points as compared to the beginning of the year. The provision coverage of impaired loans had increased by 34.22 percentage points from the beginning of the year to 151.05%.

At the same time, the Group actively improved its capital management system by developing a medium to long term capital planning framework, and to capitalise on the lower market interest rates. The Group had successfully issued subordinated bonds of RMB25 billion in early July 2009, which improved its capital adequacy, as well as its risk resistency ability.

### Enhancing its competitive advantages through implementing the strategy of internationalised first-class universal banking group featured in wealth management

The Group firmly implemented its development strategy of being “a first-class publicly-listed universal banking group with niche in wealth management and aim for international expansion. The Group continued to enhance its strengths and competitive advantages. Synergy, along with its competency as a wealth management bank, became evident. In 2009, the Group made the “Fortune Global 500” list for the first time, and was ranked as a “Top 50 Global Bank” by the Banker magazine of the UK.

During the Reporting Period, the overseas branches seized post-crisis opportunities and accelerated their business development. The overseas branches achieved substantial increase in assets, and their contributions to the Group’s profit increased by 4.35 percentage points as compared to the previous year. At the same time, the setting up of foreign offices was in progress. The Group obtained local approval for the establishment of its representative office in Sydney. Preparation works for the setting up of the San Francisco branch and the Ho Chi Minh City branch had been carried out smoothly. The Group’s global network structure of “using Asia Pacific as its main center, with Europe and America as supporting wings” is gradually materialising.

The Group made progresses in its integrated operations. It took a leading step in acquiring stakes in domestic insurance companies, and became the first domestic bank with a domestic insurance licence. The Group's existing subsidiaries were developing comprehensively. Bank of Communications Schroder Fund Management Co., Ltd. was ranked "Top 10 Fund Management Companies" in the domestic market for the first time of which the size of assets under management ranked first among all other bank affiliated fund companies. Bank of Communications International Trust Co. Ltd., Bank of Communications Finance Leasing Co. Ltd., and Bank of Communications International Holdings Co. Ltd. had achieved remarkable success in expanding their core businesses. The collaboration between the subsidiaries and the Bank was also strengthened. During the Reporting Period, the proportion of net profit contributed by subsidiaries increased by 1.09 percentage points from the previous year.


The Group continued to develop its wealth management division. Branding for "Win to Fortune" was evident. Key businesses such as cash management, supply chain finance, and investment banking had achieved mutual support and development. "Win to Account" had achieved remarkable results in providing services to large conglomerate, and attracting low cost deposits. The Group is the first to develop a framework to attract high-end individuals, middle-end individuals and the mass market via the brands "OTO Fortune", "BOCOM Fortune" and "Express Fortune" respectively, with increasing brand recognition for "OTO Fortune", thereby enhancing the tiered service system. The customer base for its private banking business, "Win to Fortune" and "BOCOM Fortune" increased by 40.5%, 43.8% and 61.6% respectively as compared to the beginning of the year. Of these, the proportion of middle to high-end clients continued to increase. The Group also introduced a new generation of mobile banking products such as "e Mobile BOCOM", improving its range of products and service functions. During the Reporting Period, it won awards such as the "Best Wealth Management Bank in China 2009" from The Asset Magazine, "Best Chinese Bank in Wealth Management" from the Euromoney magazine for the second consecutive year.

## Leveraging on World Expo and "Shanghai Two-Center Plan" to enhance its service-oriented standards

The Group leveraged on its partnership with the Shanghai World Expo and the "Shanghai Two-Center Plan", i.e. the International Financial Center and International Shipping Center, to strengthen marketing and enhance service standards associated with its "Brand and Service Year" promotion. These enhanced the standardisation of its service level industry-wide and helped establish an early warning system for sub-standard services. It also promoted the swift responses to complaints, improved the multi-dimensional service evaluation framework and its overall service-oriented standards.


Being the sole banking partner for the Shanghai World Expo 2010, the Group continued to deepen its business cooperation with the organisers and main sponsors. Customer enquiry and complaint-handling process were improved and ticket sales and sales of licensed merchandise also increased. The Group designed and implemented a financial service program for the World Expo and won the exclusive license for processing business transactions for exhibitors in China. As at the end of the Reporting Period, the Group sold 2.79 million Shanghai World Expo admission tickets and World Expo-exclusive precious metal merchandise amounting to RMB522 million.

With its Headquarters in Shanghai, the Group fully explored advantages of the "Shanghai Two-Center Plan". The Group steadily developed financial innovation, pioneered the initiative of overseas RMB settlements, and obtained one of the first pilot licences in bond trading by commercial banks on the Shanghai Stock Exchange. It was also formally admitted into the Shanghai Futures Exchange to carry out gold futures trading. The Group provided full support to the construction of the Shanghai International Shipping Center by setting up a Shipping Finance Department with the intention of further cultivating financial services niche in catered specifically for the shipping industry.

## Improving Group's infrastructure to continue its efficiency in business operation

During the Reporting Period, the Group further developed its infrastructure with steady implementation of information technology and network construction. This served to improve its operational efficiency, business process reengineering and the business support system. Ultimately, these improved the Group's overall operating efficiency.

During the Reporting Period, the Group accelerated the establishment of branches. The Group had successfully opened seven domestic provincial branches, including the Yulin Branch and the Huai'an Branch. The Group also actively promoted the transformation of low profitability outlets, upon which average customer deposits per outlet reached RMB898 million, an increase by RMB187 million as compared to last year. The Group also accelerated the enhancement to the layout and functionality of its electronic channels, thereby achieving 49.7% of total business transactions being performed via electronic channels. The preliminary results of this process fine-tuning were evident. The Group centralised back-office operation of tier-2 branches led to considerable decrease of back-office staff. The Group expanded the functionality of its financial service center in Central China, for centralised bill-processing and integrated key teller system. The Group started to develop a new generation of information system for overseas branches, by pioneering simultaneous operation of intra-city back-up of core business systems. The centralised monitoring platform for integrated business processing is launched to ensure synergy between information technology and business operations.

Aside from business infrastructural developments, the Group rigorously implemented the policies of "cost efficiency". During the Reporting Period, the Group's other operating expenses amounted to RMB32.022 billion, an increase of 4.53% as compared to the previous year. However, the increase in operating expenses is less than the proportional increase in net operating income. The cost to income ratio is 39.25%, a decrease of 0.39 percentage points from the previous year.

## 4. INCOME STATEMENT ANALYSIS

### 1. Operating profit before tax

During the Reporting Period, the Group's operating profit before tax increased by RMB2.348 billion (or 6.53%) as compared to the previous year to RMB38.301 billion. Profit before tax was derived mainly from net interest income, and net fees and commission income.

The table below shows the significant items which make up the Group's profit before tax for the year indicated:

| | | *(In millions of RMB)* |
|---|---|---|
| | **2009** | 2008 |
| Net interest income | **66,668** | 65,862 |
| Net fee and commission income | **11,399** | 8,837 |
| Impairment losses | **(11,255)** | (10,690) |
| Operating profit before tax | **38,301** | 35,953 |

### 2. Net interest income

During the Reporting Period, the Group's net interest income increased by 1.22% as compared to the previous year to RMB66.668 billion. This accounted for 81.72% of the Group's net operating income and was the most significant component of net operating income.

The table below shows the average daily balances, associated interest income and expenses, and average yield or average cost of the Group's interest-earning assets and interest-bearing liabilities during the periods indicated:

*(In millions of RMB unless otherwise stated)*

| | For the twelve months ended 31 December 2009 | | | For the twelve months ended 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Average balance[1] | Interest income/ (expense) | Average yield/(cost) ratio (%) | Average balance[1] | Interest income/ (expense) | Average yield/ (cost) ratio (%) |
| **ASSETS** | | | | | | |
| Balances with central bank | 354,396 | 5,501 | 1.55 | 296,003 | 4,985 | 1.68 |
| Due from other banks and financial institutions | 283,054 | 4,895 | 1.73 | 192,410 | 6,907 | 3.59 |
| Loans and advances to customers | 1,619,593 | 83,027 | 5.13 | 1,167,624 | 82,784 | 7.09 |
| Of which: | | | | | | |
| Corporate loans | 1,222,267 | 66,267 | 5.42 | 942,533 | 67,120 | 7.12 |
| Individual loans | 230,236 | 13,142 | 5.71 | 179,862 | 13,083 | 7.27 |
| Discounted bills | 167,090 | 3,618 | 2.17 | 45,229 | 2,581 | 5.71 |
| Investment securities | 692,916 | 23,320 | 3.37 | 561,927 | 22,430 | 3.99 |
| Total interest-earning assets | 2,901,381[4] | 115,977[4] | 4.00 | 2,181,119[4] | 115,396[4] | 5.29 |
| Total non-interest earning assets | 133,677 | | | 132,238 | | |
| **TOTAL ASSETS** | 3,035,058[4] | | | 2,313,357[4] | | |
| | | | | | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | |
| Due to customers | 2,161,675 | 34,007 | 1.57 | 1,640,628 | 37,538 | 2.29 |
| Of which: | | | | | | |
| Corporate deposits | 1,437,109 | 21,431 | 1.49 | 1,093,191 | 24,059 | 2.20 |
| Individual deposits | 724,566 | 12,576 | 1.74 | 547,437 | 13,479 | 2.46 |
| Due to other banks and financial institutions | 598,415 | 13,994 | 2.34 | 404,398 | 11,817 | 2.92 |
| Debts issued and others | 52,122 | 2,074 | 3.98 | 43,654 | 1,889 | 4.33 |
| Total interest-bearing liabilities | 2,763,634[4] | 49,309[4] | 1.78 | 2,051,835[4] | 49,534[4] | 2.41 |
| **Shareholders' equity and non-interest bearing liabilities** | 271,424 | | | 261,522 | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | 3,035,058[4] | | | 2,313,357[4] | | |
| **Net interest income** | | 66,668 | | | 65,862 | |
| **Net interest spread[2]** | | | 2.22[4] | | | 2.88[4] |
| **Net interest margin[3]** | | | 2.30[4] | | | 3.02[4] |
| **Net interest spread[2]** | | | 2.29[5] | | | 2.97[5] |
| **Net interest margin[3]** | | | 2.37[5] | | | 3.11[5] |

Notes:

1. Daily average balance calculated under the CAS and adjusted in accordance with IFRS.
2. This ratio represents the difference between the average yield on total average interest-earning assets and the average cost of total average interest-bearing liabilities.

3. This ratio represents the net interest income to total average interest-earning assets.
4. This eliminates the impact of wealth management products.
5. This eliminates the impact of wealth management products and taking into account the tax exemption on the interest income from investments in Government bonds.

During the Reporting Period, owing to the sharp decline in interest rate last year, the Group's interest margin remains relatively low. Analysing the annual trend, the return on interest showed a V-shaped movement characterised with reaching a trough in second quarter and rebounded thereafter. In the second half of the year, as loans accounted for a higher proportion of interest-earning assets, and factors such as increasing amount of current saving deposits and increasing swap of the Bank bills, the annual net interest spread and net interest margin increasing by 11 and 9 basis points respectively, as compared to the first half of the year.

The Group's net interest spread and net interest margin decreased by 66 and 72 basis points respectively as compared to the previous year, to 2.22% and 2.30% respectively. The decrease in tighter net interest spread and net interest margin were mainly due to the following:

(1) In 2008, interest rate was reduced several times. This led to a reduction in average return on loans by 196 basis points as compared to the previous year. The return from investment securities and amounts due from other banks and financial institutions dropped by 62 and 186 basis points respectively as compared to the previous year.

(2) As the re-pricing of deposits is lagging behind, average interest rate for deposits declined at a relatively slower rate, which reduced 72 basis points to 1.57%. This was lower than the corresponding reduction in the return on loans.

The table below shows the impact of changes in volume and interest rates on the Group's interest income and interest expense. Changes indicated are based on the changes in average daily balance and interest rates from interest-earning assets and interest-bearing liabilities during the periods indicated.

| | | | *(in millions of RMB)* |
|---|---|---|---|
| | Comparison between 2009 and 2008 | | |
| | Increase/(decrease) due to | | |
| | Balance | Interest rate | Net increase/ (decrease) |
| **Interest-earning Assets** | | | |
| Balances with central banks | **981** | **(465)** | **516** |
| Due from other banks and financial institutions | **3,254** | **(5,266)** | **(2,012)** |
| Loans and advances to customers | **32,045** | **(31,802)** | **243** |
| Investment securities | **5,226** | **(4,336)** | **890** |
| Changes in interest income | **41,506** | **(41,869)** | **(363)** |
| **Interest-bearing Liabilities** | | | |
| Due to customers | **11,932** | **(15,463)** | **(3,531)** |
| Due to other banks and financial institutions | **5,665** | **(3,488)** | **2,177** |
| Debt issued and other interest bearing liabilities | **367** | **(182)** | **185** |
| Changes in interest expense | **17,964** | **(19,133)** | **(1,169)** |
| Changes in net interest income | **23,542** | **(22,736)** | **806** |

During the Reporting Period, the Group's net interest income increased by RMB806 million as compared to the previous year. Of this, changes in volume caused net interest income to increase by RMB23.542 billion, while changes in interest rate caused net interest income to decrease by RMB22.736 billion.

### *(1) Interest income*

During the Reporting Period, the Group's gross interest income decreased by RMB363 million or 0.31% as compared to the previous year, to RMB116.743 billion.

① Interest income from loans and advances to customers

Interest income from loans and advances to customers contributed most to the Group's interest income. During the Reporting Period, interest income from loans and advances to customers increased by RMB243 million or 0.29% as compared to the previous year, to RMB83.027 billion. Due to the reduction in interest rate in 2008, the return on loans and advances to customers reduced significantly, and this offset the impact on the increase in interest income caused by the increase in the scale of loans. The return on corporate loans, individual loans and discounted bills decreased from the previous year by 170, 156, and 354 basis points respectively.

② Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB890 million (or 3.97%) as compared to the previous year, to RMB23.320 billion. The Group managed to seize favourable opportunities for investments and strengthened its investment operations and optimised its investment structure. This, in turn, helped to maintain the return on investment securities at a relatively high level of 3.37%.

③ Interest income from cash and balances with central banks

Cash and balances with central bank mainly include cash and balances in deposit reserves and in excess reserves. During the Reporting Period, interest income from cash and balances with the central bank increased by RMB516 million as compared to the previous year to RMB5.501 billion. This is due to increase in cash and balances in deposit reserve as a result of the increase in customer deposit. Average cash and balances with central bank also increased by RMB58.393 billion or 19.73% as compared to the previous year.

④ Interest income due from other banks and financial institutions

Total interest income due from other banks and financial institutions decreased by RMB2.012 billion, to RMB4.895 billion. This was driven by the general reduction in interest rates in the money market. The average return arising from amounts due from other banks and financial institutions decreased by 186 basis points to 1.73% as compared to the previous year.

***(2) Interest expense***

During the Reporting Period, the Group's gross interest expense decreased by RMB1.169 billion (or 2.28%) as compared to the previous year, to RMB50.075 billion.

① Interest expense due to customers

Customer deposits are the Group's main source of funding. During the Reporting Period, interest expense due to customers decreased by RMB3.531 billion or 9.41% as compared to the previous year to RMB34.007 billion. This accounts for 67.91% of total interest expense. The reduction in interest expense due to customers is mainly due to the lagging effect in interest rate decrease. The average cost decreased from 2.29% in the previous year to 1.57%.

② Interest expense due to other banks and financial institutions

During the Reporting Period, interest expense from amounts due to other banks and financial institutions increased by RMB2.177 billion or 18.42% as compared to the previous year, to RMB13.994 billion. This arose mainly from an increase in average balance of 47.98% as compared to the previous year. At the same time, due to the reduction in interest rate in the domestic money market, the average cost of funding had decreased by 58 basis points.

③ Interest expense from debts issued and others

During the Reporting Period, interest expense from debts issued and other interest bearing liabilities increased by RMB185 million as compare to the previous year to RMB2.074 billion. The average cost of funding had decreased from 4.33% in the previous year to 3.98%.

## 3. Net fee and commission income

Net fee and commission income is a major component of the Group's net operating income. During the Reporting Period, the Group continued in its expedition on its product and service innovation, thus continuing in a relatively fast growth of the fee based business. During the Reporting Period, the Group's net fee and commission income increased by RMB2.562 billion (or 28.99%) as compared to the prior year, to RMB11.399 billion. Overall, this accounted for 13.97% of net operating income, which represented an increase of 2.53 percentage points as compared to the previous year. The Group's fee based business had been further enhanced by new lines of businesses such as investment banking business, credit card and wealth management.

The table below shows the major components of the Group's net fee and commission income for the periods indicated:

| | | *(in millions of RMB)* |
|---|---|---|
| | **2009** | 2008 |
| Commission income on settlement and agent service | **2,817** | 2,045 |
| Bank card related fee income | **3,992** | 2,938 |
| Guarantee and commitment commission income | **1,133** | 912 |
| Commission income on custodian service | **715** | 667 |
| Commission income on sales of investment funds | **984** | 853 |
| Commission income on funds management | **761** | 590 |
| Consulting income | **1,920** | 1,081 |
| Other commission income | **1,092** | 1,035 |
| **Total fee and commission income** | **13,414** | 10,121 |
| **Less: Fee and commission expense** | **(2,015)** | (1,284) |
| **Net fee and commission income** | **11,399** | 8,837 |

Commission income on settlement and agent service increased by RMB772 million (or 37.75%) from the previous year to RMB2.817 billion. Of these amounts, agent service commission income increased by 95.99% from the previous year to RMB537 million.

Bank card related fee income increased by RMB1.054 billion (or 35.87%) from the previous year to RMB3.992 billion. The increase is mainly due to an increase in card issuance, an increase in outstanding balances and higher transaction volume at self-service machines.

Guarantee and commitment commission income increased by RMB221 million or 24.23% from the previous year, to RMB1.133 billion. The increase is mainly due to increased non-financing related guarantee and loan commitment businesses.

Commission income on custodian service increased by RMB48 million as compared to the previous year, to RMB715 million. This is due to an increase in the size of the asset in custody.

Fund sales and fund management commission income increased by RMB302 million from the previous year to RMB1.745 billion. The increase is mainly due to an increase in sales volume in funds.

Consulting income increased by RMB839 million or 77.61% from the previous year to RMB1.920 billion. The increase is mainly due to increased business volume for financial consultancy.

## 4. Other operating expenses

The Group achieved significant results from its cost-reduction measures, which resulted in a 17.19 percentage points reduction in other operating expenses. During the Reporting Period, the Group's other operating expenses increased by RMB1.389 billion (or 4.53%) from the previous year to RMB32.022 billion. Cost-to-income ratio decreased by 0.39% from the previous year to 39.25%.

## 5. Impairment losses

During the Reporting Period, the Group's impairment losses on loans and advances increased by RMB565 million from the previous year to RMB11.255 billion. The increase is mainly due to (1) an increase in the scale of loans and advances, which directly led to an increase in the collectively assessed allowance for impairment by RMB3.463 billion to RMB9.318 billion; partially offset by (2) aggregate individually assessed allowance decreased by RMB2.920 billion from the previous year to RMB1.940 billion because of natural disasters (such as earthquake, snow storm) and the global financial crisis in the previous year. During the Reporting Period, credit to cost ratio also decreased by 0.19 percentage points from the prior year to 0.61%.

## 6. Income tax

During the Reporting Period, the Group's income tax expense increased by RMB715 million or 9.75% from the previous year to RMB8.047 billion. The effective tax rate of 21.01%, lower than the statutory tax rate of 25%, was due to the Group's interest income from Government bonds tax exemption of pursuant to the relevant tax provisions.

The table below shows the Group's current tax and deferred tax for the periods indicated:

| | | *(in millions of RMB)* |
|---|---|---|
| | **2009** | 2008 |
| Current Tax | **9,149** | 8,244 |
| Deferred Tax | **(1,102)** | (912) |

## 5. ANALYSIS ON MAJOR BALANCE SHEET ITEMS

### 1. Assets

As at the end of the Reporting Period, the Group's total assets was RMB3,309.137 billion, representing an increase of RMB630.888 billion or 23.56% from the beginning of the year.

The table below shows the outstanding balances (after allowances) of the principal components of the Group's total assets and their proportion to the total assets as at the dates indicated:

*(in millions of RMB unless otherwise stated)*

| | **31 December 2009** | | 31 December 2008 | |
|---|---|---|---|---|
| | **Balance** | **Proportion (%)** | Balance | Proportion (%) |
| Loans and advances to customers | **1,801,538** | **54.44** | 1,298,776 | 48.49 |
| Investment securities | **775,761** | **23.44** | 623,071 | 23.26 |
| Cash and balances with central banks | **434,996** | **13.15** | 362,180 | 13.52 |
| Due from other banks and financial institutions | **222,671** | **6.73** | 331,511 | 12.38 |
| Total assets | **3,309,137** | **—** | 2,678,249 | — |

***(1) Loans business***

During the Reporting Period, the Group capitalised on opportunities that arose from government stimulus policies. Additionally, the Group achieved further growth from increased credit disbursements to creditworthy customers and conglomerates. As at the end of the Reporting Period, the Group's total outstanding loans and advances to customers was RMB1,839.314 billion. This represented an increase of RMB510.724 billion or 38.44% from the beginning of the year.

**Loan concentration by industries**

During the Reporting Period, the Group achieved high growth in its loans business by responding actively to the government's stimulus policy of "maintaining growth, boosting domestic demand and adjusting structure" to capitalise on opportunities post-financial crisis. The Group strengthened the management of its loan disbursements and extended its credit support to critical areas such as construction projects, small and medium-sized enterprises, agricultural sector. The proportion of infrastructural loans, such as transportation, power generation, public utilities and energy, further increased. The Group also strengthened its rural financial service business, which saw agriculture-related loans increased by 47.14% from the beginning of the year. The Group also continued to introduce innovative credit products and services catered to small enterprises which, for example, resulted in strong growth in "Zhan Ye Tong" loans, which increased by 154.70% as compared to the beginning of the year.

The table below shows the distribution of the Group's loans and advances by industry as of the dates indicated:

*(in millions of RMB unless otherwise stated)*

| | **31 December 2009** | | 31 December 2008 | |
|---|---|---|---|---|
| | **Outstanding balance** | **Proportion (%)** | Outstanding balance | Proportion (%) |
| Manufacturing | | | | |
| — Petroleum and chemical | **73,062** | **3.97** | 60,331 | 4.54 |
| — Electronics | **23,992** | **1.30** | 23,680 | 1.78 |
| — Steel making and processing | **40,109** | **2.18** | 33,766 | 2.54 |
| — Machinery | **76,532** | **4.16** | 67,141 | 5.05 |
| — Textile | **24,163** | **1.31** | 22,102 | 1.66 |
| — Others | **140,836** | **7.66** | 114,481 | 8.63 |
| Transportation | **226,757** | **12.33** | 148,935 | 11.21 |
| Electricity | **119,824** | **6.51** | 105,541 | 7.94 |
| Wholesale and retail | **145,278** | **7.90** | 108,559 | 8.17 |
| Services | **81,699** | **4.44** | 49,990 | 3.76 |
| Real estate | **129,325** | **7.03** | 88,568 | 6.67 |
| Utilities | **183,704** | **9.99** | 92,207 | 6.94 |
| Construction | **55,387** | **3.01** | 52,261 | 3.93 |
| Energy and mining | **31,230** | **1.70** | 20,279 | 1.53 |
| Recreation and entertainment | **19,485** | **1.06** | 20,560 | 1.55 |
| Accommodation and catering | **13,163** | **0.72** | 13,977 | 1.05 |
| IT and communications service | **8,213** | **0.45** | 8,200 | 0.62 |
| Financial institutions | **22,853** | **1.24** | 10,164 | 0.77 |
| Others | **11,192** | **0.61** | 13,057 | 0.98 |
| **Total corporate loans** | **1,426,804** | **77.57** | 1,053,799 | 79.32 |
| Mortgage loans | **198,695** | **10.80** | 124,555 | 9.37 |
| Medium-term and long-term working capital loans | **27,573** | **1.50** | 23,873 | 1.80 |
| Short-term working capital Loans | **21,482** | **1.17** | 16,883 | 1.27 |
| Car loans | **4,894** | **0.27** | 4,271 | 0.32 |
| Credit card advances | **30,693** | **1.67** | 20,453 | 1.54 |
| Others | **27,301** | **1.48** | 15,023 | 1.13 |
| **Total individual loans** | **310,638** | **16.89** | 205,058 | 15.43 |
| Discounted bills | **101,872** | **5.54** | 69,733 | 5.25 |
| **Gross amount of loans and advances to customers before impairment allowances** | **1,839,314** | **100.00** | 1,328,590 | 100.00 |

As at the end of the Reporting Period, the Group's total outstanding corporate loans (excluding discounted bills) amounted to RMB1,426.804 billion, which represented an increase of RMB373.005 billion or 35.40% from the beginning of the year. Loans and advances were mainly concentrated in the four industries of manufacturing, transportation, public utilities and wholesale and retail businesses, which collectively accounted for 65.49% of the total corporate loans.

As at the end of the Reporting Period, outstanding individual loans amounted to RMB310.638 billion, which represented an increase of RMB105.580 billion or 51.49% from the beginning of the year. The proportion of individual loans of the client loans increased by 1.46 percentage points from the beginning of the year to 16.89%.

**Loan concentration by borrowers**

Under the prevailing PRC banking regulations, the total outstanding credit exposure to a single group customer must not exceed 15% of the net capital base of a bank and the total outstanding loans to a single borrower shall not exceed 10% of the net capital base of a bank. The Group currently complies with these regulatory requirements.

The table below shows the loan balances to the top 10 single borrowers of the Group as at the date indicated:

*(in millions of RMB unless otherwise stated)*

| | | As at 31 December 2009 | |
|---|---|---|---|
| | **Type of industry** | **Outstanding loan balance** | **Percentage of total loans and advance (%)** |
| Customer A | Transportation | 6,108 | 0.33 |
| Customer B | Transportation | 5,433 | 0.30 |
| Customer C | Public utility | 5,000 | 0.27 |
| Customer D | Real estate | 5,000 | 0.27 |
| Customer E | Wholesale and Retail | 4,900 | 0.27 |
| Customer F | Public utility | 4,680 | 0.25 |
| Customer G | Manufacturing — Petroleum | 4,518 | 0.25 |
| Customer H | Commercial Services | 4,500 | 0.24 |
| Customer I | Transportation | 4,470 | 0.24 |
| Customer J | Transportation | 4,335 | 0.24 |
| **Total** | | **48,944** | **2.66** |

**Loan concentration by geographical locations**

The Group's loans and advances to customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at the end of the Reporting Period, loans and advances to customers in these three regions accounted for 32.45%, 22.88% and 8.54% respectively compared to the beginning of the year.

**Loan quality**

The Group continuously improved the quality of its loans. As at the end of the Reporting Period, the impaired loans ratio was 1.36%, representing a decrease of 0.56 percentage points from the beginning of the year. The provision coverage of impaired loans was 151.05%, representing an increase of 34.22 percentage points from the beginning of the year.

The table below shows certain information on the Group's individually identified impaired loans and loans overdue by more than 90 days as at the dates indicated:

| | *(in millions of RMB unless otherwise stated)* | |
|---|---|---|
| | **31 December 2009** | 31 December 2008 |
| Individually identified impaired loans | **25,009** | 25,520 |
| Loans overdue by more than 90 days | **21,190** | 20,979 |
| Percentage of impaired loans to gross amount of loans and advances to customers (%) | **1.36** | 1.92 |

**Customer structure**

The Group further optimised its customer structure. As at the end of the Reporting Period, corporate customers of domestic branches are classified using a 10-class credit rating system, loans outstanding to class 1 to class 5 high quality customers amounted to 89.19% of the total outstanding loan balance, which represented an increase of 8.65 percentage points from the beginning of the year. Loans outstanding to class 6 to class 7 customers amounted to 4.42% of the total outstanding loan balance, which represented a decrease of 9.22 percentage points and loans outstanding to class 8 to class 10 high-risk customers only amounted to 1.54%, which represented a decrease of 0.58 percentage points.

***(2) Investment securities***

Since the formation of the Financial Market division in 2008, the Group continued to strengthen the centralisation of its treasury operations and optimise its investment structure. As at the end of the Reporting Period, the Group's outstanding balance of investment securities amounted to RMB775.761 billion, which represented an increase of RMB152.690 billion or 24.51% from the previous year. Return on investment in securities was as high as 3.37%.

**Distribution of the Group's investment securities**

The table below shows the distribution of the Group's investment securities by holding purposes and by type of issuers as of the dates indicated:

— By holding purposes

*(in millions of RMB unless otherwise stated)*

| | **31 December 2009** | | 31 December 2008 | |
|---|---|---|---|---|
| | **Balance** | **Proportion (%)** | Balance | Proportion (%) |
| Investments at fair value through profit or loss | **26,884** | **3.47** | 22,280 | 3.58 |
| Loans and receivables | **107,604** | **13.87** | 90,903 | 14.59 |
| Available-for-sale investments | **132,094** | **17.03** | 142,010 | 22.79 |
| Held-to-maturity investments | **509,179** | **65.63** | 367,878 | 59.04 |
| **Total** | **775,761** | **100.00** | 623,071 | 100.00 |

— By type of issuers

*(in millions of RMB unless otherwise stated)*

| | **31 December 2009** | | 31 December 2008 | |
|---|---|---|---|---|
| | **Balance** | **Proportion (%)** | Balance | Proportion (%) |
| Central governments and central banks | **301,136** | **38.82** | 294,356 | 47.24 |
| Public sector entities | **11,643** | **1.50** | 8,764 | 1.41 |
| Banks and other financial institutions | **250,860** | **32.34** | 225,966 | 36.27 |
| Corporate entities | **212,122** | **27.34** | 93,985 | 15.08 |
| **Total** | **775,761** | **100.00** | 623,071 | 100.00 |

## 2. Liabilities

As at the end of the Reporting Period, the Group's total liabilities reached RMB3,144.712 billion, which represented an increase of RMB612.063 billion or 24.17% from the beginning of the year. Customer deposits increased by RMB506.240 billion from the beginning of the year, which accounted for 75.43% of total liabilities, representing an increase of 1.76 percentage points from the beginning of the year. Amounts due to other banks and financial institutions increased by RMB83.719 billion, which accounted for 20.77% of total liabilities, representing a decrease of 1.71 percentage points from the beginning of the year.

***Customer deposits***

Customer deposits are the main source of funding for the Group. As at the end of the Reporting Period, the Group's customer deposits balance amounted to RMB2,372.055 billion, which represented an increase of RMB506.240 billion or 27.13% from the beginning of the year. The Group has a sound deposit structure, where in terms of its customer portfolio, corporate deposits accounted for 65.72% of total deposits, which was an increase of 2.47 percentage points from the beginning of the year. Individual deposits accounted for 33.99% of total deposits, which represented a decrease of 2.22 percentage points from the beginning of the year. With regards to the terms of deposits, current deposits accounted for 49.70% of the total deposits, an increase of 1.33 percentage points from the beginning of the year, while time deposits accounted for 50.00% of the total deposits, which was a decrease of 1.09 percentage points from the beginning of the year.

The table below shows the Group's corporate and individual deposits as of the dates indicated:

| | | *(in millions of RMB)* |
|---|---|---|
| | **31 December 2009** | 31 December 2008 |
| Corporate deposits | **1,558,842** | 1,180,207 |
| Of which: | | |
| Corporate current deposits | **865,097** | 655,101 |
| Corporate time deposits | **693,745** | 525,106 |
| Individual deposits | **806,190** | 675,564 |
| Of which: | | |
| Individual current deposits | **313,835** | 247,428 |
| Individual time deposits | **492,355** | 428,136 |

## 6. SEGMENT ANALYSIS

### 1. Operating results by geographical segments

The table below shows the net profit and total revenue from each of the Group's geographical segments for the periods indicated:

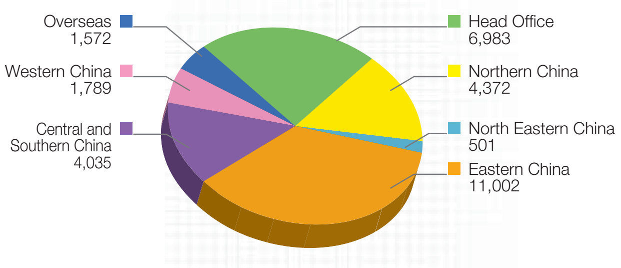
*(in millions of RMB)*

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Net profit** | **Net Operating Income[1]** | Net profit | Net Operating Income[1] |
| Northern China | **4,372** | **12,252** | 3,917 | 11,142 |
| North Eastern China | **501** | **3,238** | 971 | 3,870 |
| Eastern China[2] | **11,002** | **29,745** | 11,029 | 29,253 |
| Central and Southern China | **4,035** | **14,465** | 5,746 | 14,315 |
| Western China | **1,789** | **6,071** | 1,804 | 5,752 |
| Overseas | **1,572** | **3,549** | 93 | 2,155 |
| Head Office | **6,983** | **12,258** | 5,061 | 10,789 |
| **Total[3]** | **30,254** | **81,578** | 28,621 | 77,276 |

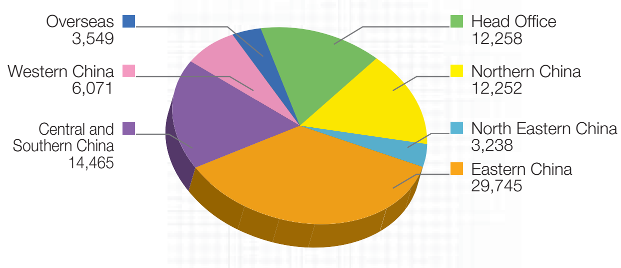
Notes:

1. Includes net interest income, net fee and commission income, dividend income, gains less losses from trading activities, gains less losses arising from the de-recognition of investment securities and other operating income;
2. Excludes Head Office;
3. Includes minority interests.

**2009 Net profit** (in millions of RMB)




**2009 Total revenue** (in millions of RMB)



## 2. Deposits and loans and advances by geographical segments

The table below shows the Group's deposits, and loans and advances balances of the customers by geographical segments as at the dates indicated:

*(in millions of RMB)*

| | As at 31 December 2009 | | As at 31 December 2008 | |
|---|---|---|---|---|
| | **Deposit balance** | **Loans and advances balance** | Deposit balance | Loans and advances balance |
| Northern China | **446,405** | **332,812** | 353,576 | 257,720 |
| North Eastern China | **175,077** | **90,882** | 152,496 | 73,961 |
| Eastern China[Note] | **920,550** | **750,489** | 712,409 | 530,674 |
| Central and Southern China | **482,137** | **360,322** | 384,419 | 252,763 |
| Western China | **222,223** | **172,251** | 174,069 | 111,579 |
| Overseas | **93,918** | **100,761** | 86,930 | 73,844 |
| Head Office | **31,745** | **31,797** | 1,916 | 28,049 |
| **Total** | **2,372,055** | **1,839,314** | 1,865,815 | 1,328,590 |

Note: Excludes Head Office

## 3. Operating results by business segments

Among the four main business segments: corporate banking, retail banking, treasury and others, the corporate banking segment is the primary source of profit for the Group. Operating profit before tax from the corporate banking segment accounted for 73.11% of the Group's total operating profit before tax.

The table below shows the amounts of operating results of each of the Group's business segments for the periods indicated:

*(in millions of RMB)*

| | As at 31 December | | |
|---|---|---|---|
| | **2009 Revenue from external customers** | 2008 Revenue from external customers | **2009 Profit before tax** |
| Corporate banking | **77,377** | 75,833 | **28,003** |
| Retail banking | **20,302** | 18,915 | **6,525** |
| Treasury | **33,173** | 33,932 | **7,086** |
| Others | **2,816** | 1,124 | **(3,313)** |
| **Total** | **133,668** | 129,804 | **38,301** |

## 7. OTHER FINANCIAL INFORMATION

Set out below are the relevant information disclosed pursuant to the latest requirements of China Securities Regulatory Commission.

### 1. Fair value measurement related items

The Group established a market risk management system under the responsibility and leadership of the Board of Directors, and also completed the development of an internal control framework, which uses the fair value measurement basis, in order to satisfy the relevant internal control and information disclosure requirements and to gradually and orderly improve the market risk management by connecting all the relevant front office, middle office and back office departments and encompassing fair value valuation, measurement, monitoring and verification. The Group will continue to learn from the experience of its peers and international practices to further optimise its internal control system in connection with fair value measurement. The Group primarily uses quoted market prices as the fair value of financial instruments traded in active markets. It uses valuation models and observable parameters of the market or compare party quotes which are reviewed by relevant risk management divisions, to determine the fair value of financial instruments that are not traded in an active market.

The table below shows the fair value measurement related items of the Group in 2009:

*(in millions of RMB)*

| Item | Opening balance | Gains/ (losses) on change in fair value | Cumulative fair value gains/ (losses) recognised in equity | Impairment Losses (accrued)/ reversed | Closing Balance |
|---|---|---|---|---|---|
| Financial assets includes: | | | | | |
| 1. Financial assets, measured at fair value, changes of which are recorded in profit and loss (excluding financial derivatives) | 22,280 | (160) | — | — | 26,884 |
| 2. Financial derivatives | 4,656 | (2,286) | — | — | 2,370 |
| 3. Financial assets, available-for-sale | 142,010 | — | 1,394 | 149 | 132,094 |
| Total of financial assets | 168,946 | (2,446) | 1,394 | 149 | 161,348 |
| Investment property | 109 | 18 | — | — | 124 |
| Total | 169,055 | (2,428) | 1,394 | 149 | 161,472 |
| Financial liabilities [Note] | (10,013) | 2,762 | — | — | (9,375) |

Note: Only applicable to financial liabilities held for trading.

2. Holdings in foreign currency denominated financial assets and financial liabilities

The table below shows the foreign currency denominated financial assets and financial liabilities held by the Group in 2009:

*(in millions of RMB)*

| Item | Opening Balance | Gains/ (losses) on change in fair value | Cumulative Gains/ (losses) recognised in equity | Impairment losses (accrued)/ reversed | Closing Balance |
|---|---|---|---|---|---|
| Financial assets Includes: | | | | | |
| 1. Financial assets, measured at fair value, changes of which are recorded in profit and loss (excluding financial derivatives) | 3,765 | 296 | — | — | 10,042 |
| 2. Financial derivatives | 2,420 | (1,262) | — | — | 1,158 |
| 3. Loans and receivables[1] | 203,838 | — | — | (436) | 232,079 |
| 4. Financial assets, available-for-sale | 28,223 | — | 358 | 142 | 35,587 |
| 5. Financial assets, held-to-maturity | 1,634 | — | — | 5 | 2,730 |
| Total of financial assets | 239,880 | (966) | 358 | (289) | 281,596 |
| Financial liabilities[2] | (217,675) | 826 | — | — | (249,263) |

Notes:

1. Includes cash and balances with central bank, due from banks and other financial institutions, loans and advances to customers and investment securities-loans and receivables and other financial assets.
2. Includes due to banks and other financial institutions, financial liabilities held for trading, customer deposits and other financial liabilities.

## 8. RISK MANAGEMENT

In 2009, the "Enterprise Risk Management (ERM) Plan 2009–2011" guided the Group to build its comprehensive risk management framework. Due to the New Basel Capital Accord, the Group expanded the scope of risk management, and further utilised management depth, after capitalising on the current development of management and information systems. It also enhanced the execution of risk management policies, and the effectiveness of management tools to elevate overall risk management to a higher level.

The Group followed its "active, moderate and balanced" overall risk appetite. Based on the principle of "balancing pro-activeness with stability, balancing division with efficiency and combining centralised management with customisation", the Group carried out its comprehensive risk management to ensure reasonable allocation of resources, efficiency and asset quality.

## 1. Risk management structure

The Board is ultimately responsible for Group risk management, with its final decisions, on the risk exposures through its Risk Management Committee. In turn, the Risk Management Committee, within senior management, appraises risks and assesses effectiveness of risk management policies periodically. Senior management's Risk Management Committee comprised three sub-committees for the management of credit risk, market risk and operation risk, respectively. These sub-committees are responsible for the review of major risk management matters. The Group's Chief Risk Officer assumes the duties and responsibilities of implementing the overall risk management on behalf of senior management.

The Group established a hierarchical risk management structure that is based on its criteria of "comprehensiveness, intensiveness, matrix-based". The Risk Management Department, located at the Headquarters, is in charge of the overall risk management. It established a daily two-way communication system with all risk management departments of the business lines at Head Office, all domestic and foreign branches and subsidiaries. This achieved encompassing and standardised approach that enhanced its independence and professionalism.

## 2. Credit risk management

The Bank's corporate business department, credit management department and credit approval center, risk management department, asset protection department, retail credit management department and credit card center, among others, comprise the main operation departments of the Group's credit risk management. They applied standardised credit due diligence and reporting, credit approval, disbursement, post-disbursements monitoring and non-performing loan management, among others, for corporate credit, retail credit and credit card businesses.

### *(1) Risk classification methodology and procedures*

Taking into account customers' credit standing, financial status and repayment capability, the Group uses an internally developed 10-class credit rating system to manage corporate loans. Customers with class 1–5 are considered by the Group as high-quality customers, class 6–7 as average customers and class 8–10 as problematic customers. The Group adopts different strategies for customers in different grading. The Group carries out a three-level risk filtering assessment of corporate customers, on a daily basis, to identify the potential risks by utilising its asset risk management system. The Bank also uses a discounted cash flow model to estimate the loss for each loan. For impaired credit assets, the Group formulated an action plan for each customer, such as appointing designated personnel for collection or disposal and recognising an individually assessed allowance based on the expected loss. For performing corporate loans, the Group also made collectively assessed allowances based on migration analysis.

The Group categorises retail loans based on overdue status and the type of security provided. With regard to the performing retail loans, the Group strengthens their monitoring through regular visits to customers. For overdue retail customers, the collection approach differs according to the overdue duration. Retail loans overdue for more than a certain period are treated as impaired assets and impairment allowance made according to supervisory regulations.

**(2) *Risk management and control policies***

In 2009, the Group actively responded to the changes in the macroeconomic situation and fully adhered to the national economic industrial policies and guidance from regulators. The Group further enhanced its credit risk management system, with its credit policy. It also proactively optimised its credit portfolio and implemented real-time credit risk control, thereby achieving a stable and healthy development of its credit business.

For its corporate financing business, the Group closely monitored developments in the economic and financial situations as well as the overall credit risk in the specific industry. It also strengthened its guidance on credit granting and developed an industry-specific credit granting directives. Risk warning, supervision and specific risk reviews were enhanced to identify clients with major actual or potential risks. The Group also promoted a bank-wide review on post-disbursement management, which effectively refined the quality of such monitoring mechanism.

For its personal finance business, the Group improved its risk monitoring and warning mechanisms, and made timely identification and detection of risks. The Group used stress tests and quality migration analysis, to understand and prejudge the trend relating to the quality of each loan as early as possible and took pre-emptive specific risk control measures. The Group continued to implement a rapid response mechanism to deal with emergencies. The Group carried out management by means of watch-list on major risk projects to monitor, guide and control collection.

The Group had an independent credit card center for operating its credit card business. In 2009, the credit card center implemented control and preventive measures. The credit approval stage was also improved by corroboration of data. The Group have implemented a two-stage reminder system on high risk customers to tighten their credit early. The Group sought to increase collection through reasonable allocation of resources for collection and fine-tuning of data analysis.

The Group practised centralised review, approval and management of approval limits with respect to credit to other banking institutions. In 2009, the Group further standardised its interbank lending in terms of division of tasks, work flow and system development. The Group strengthened its interbank credit risk management through careful counterparty selection, regular risk assessments, implementation of a hierarchical credit approval system and timely review of or adjustment to credit limits.

In 2009, the Group further enhanced its development of a credit risk management system, when it integrated the internal ratings system for corporate loans with the credit management system and also utilises it online for personal and small-business loans. Internal ratings were also practically used in the credit approval, review and risk management processes. The Bank's collateral management system was made online, thereby achieving the goal of automating the information platform, standardising document management, and integrating value management with asset management.

### (3) *Asset quality and migration*

As at the end of 2009, the asset quality of loans, based on the five-level credit categories as stipulated by the China Banking Regulatory Commission, was as follows:

*(in millions of RMB unless otherwise stated)*

| | **As at 31 December 2009** | | As at 31 December 2008 | | As at 31 December 2007 | |
|---|---|---|---|---|---|---|
| **Categories** | **Balance** | **Proportion (%)** | Balance | Proportion (%) | Balance | Balance |
| Pass | **1,764,060** | **95.91** | 1,248,988 | 94.00 | 1,025,620 | 92.86 |
| Special mention | **50,245** | **2.73** | 54,142 | 4.08 | 56,135 | 5.08 |
| **Total performing loan balance** | **1,814,305** | **98.64** | 1,303,130 | 98.08 | 1,081,755 | 97.94 |
| Sub-standard | **10,756** | **0.59** | 12,087 | 0.91 | 12,443 | 1.13 |
| Doubtful | **11,490** | **0.62** | 11,086 | 0.84 | 8,943 | 0.81 |
| Loss | **2,763** | **0.15** | 2,287 | 0.17 | 1,349 | 0.12 |
| **Total non-performing loan balance** | **25,009** | **1.36** | 25,460 | 1.92 | 22,735 | 2.06 |
| **Total** | **1,839,314** | **100.00** | 1,328,590 | 100.00 | 1,104,490 | 100.00 |

As at the end of 2009, the loan migration rates, based on the definitions stipulated by the China Banking Regulatory Commission, were as follows:

| **Loan migration rate (%)** | **2009** | 2008 | 2007 |
|---|---|---|---|
| Pass | **1.96** | 2.32 | 1.72 |
| Special mention | **24.22** | 21.72 | 13.67 |
| Sub-standard | **36.46** | 43.86 | 23.71 |
| Doubtful | **5.46** | 9.04 | 5.44 |

For details of the Group's loans restructuring, please see the Chapter "Supplementary Unaudited Financial Information — Overdue and Reschedule Assets".

## 3. Liquidity risk management

In 2009, the Group paid close attention to the macro-economic environment, financial markets and changes in monetary policies, and further enhanced liquidity risk management. The Group forecasted its liquidity needs by adjusting its management strategies with hindsight. Faced with increased liquidity pressure from the US dollar due to the expected appreciation of RMB, the Group strictly curtailed new foreign currency loan approval, and reduced holdings of foreign-currency-denominated bonds. The Group actively conducted stress-testing and calculated possible liquidity constraints in various stress scenarios, with related contingency plans. The Group also enhanced our systems, with the development of an asset/liability management information system to monitor the liquidity gap of various currencies and the calculation of matured asset cash flows. The Group accelerated the development of the treasury and internal fund transfer pricing system.

As at the end of 2009, relevant indicators to reflect the Group's liquidity are as follows:

| Major regulatory indicators (%) | **As at 31 December 2009** | As at 31 December 2008 | As at 31 December 2007 |
|---|---|---|---|
| Liquidity ratio (Local and foreign currencies) | **28.02** | 39.72 | 27.20 |
| Loan-to-deposit ratio (Local and foreign currencies) | **72.59** | 65.29 | 64.93 |

Note: Calculated in accordance with the regulatory requirements applicable to the Chinese banking industry.

The table below shows as at the end of 2009, the term structure of cash flow for non-derivatives financial assets and financial liabilities of the Group. The amounts in the table are contractual undiscounted cash flows.

*(in millions of RMB)*

| | Overdue | Matured | Due in 1 month | Due between 1 month and 3 months | Due between 3 months and 1 year | Due between 1 year and 5 years | Due in more than 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Non-derivatives financial assets | 22,830 | 467,032 | 228,315 | 294,595 | 886,600 | 1,094,587 | 716,952 | 3,710,911 |
| Non-derivatives financial liabilities | – | (1,448,825) | (457,241) | (360,359) | (586,846) | (288,890) | (39,573) | (3,181,734) |
| Net exposure | 22,830 | (981,793) | (228,926) | (65,764) | 299,754 | 805,697 | 677,379 | 529,177 |

## 4. Market risk management

In 2009, the Group was dedicated to improve its market risk management systems. The Group established a set of market risk management policies and regimes including the standardisation of market risk basic monitoring system, limit management, financial instruments control and categorisation, wealth management product control, trading interest rate risk management, exchange rate risk management and market risk stress testing. The Group enhanced our market risk limits management system by adding Group's market risk limits for periodic monitoring. The Group completed phase one of the market risk management information system development by putting it online and, realising new functions such as position management, valuation analysis, sensitivities analysis, risk valuation and stress testing. The Group measured market risk capital periodically to ensure sufficient capital.

### *(1) Interest rate risk management*

The Group implemented limit management to interest rate risk on its trading books by setting trading, stop-loss, open exposure and sensitivity limits and systematically monitoring them. The Group managed interest rate risks on the trading book through parameters such as duration, convexity and basis point value, combined with an analysis of the market environment and position distribution of the Group. Moreover, the Group progressively strengthened the operations of its trading book, as well as appropriately used financial derivatives instruments to control and hedge the interest rate risk on the trading book. In 2009, the Group implemented a Trading Book Interest Rate Risk Management Guideline with an overall framework to ascertain the fair value and trading book interest rate risk.

The Group has started developing a comprehensive banking book interest rate risk monitoring system. Currently, it managed its banking book's exposure to interest rate risk by regularly monitoring the gap analysis in the repricing of interest-sensitive assets and liabilities and adjusting the proportion of floating-rate and fixed-rate assets, among others. In 2009, the Group closely monitored the movements of local and foreign currencies and reduced limits by strengthening integrated operation and limits control. By reasonably adjusting the pricing strategy on loans and fine-tuning pricing negotiation, the Group realised profit maximisation while controlling risk.

***(2) Exchange rate risk management***

Adhering to its own risk appetite and management level, the Group continued to enhance its trading and information management systems to manage and control the Bank's exchange rate risk through measures such as minimising foreign exchange exposure to permissible limits under the Bank's policies. It also strengthened the matching of the currency structure of assets and liabilities by actively adjusting composition of foreign currency denominated assets, and hedging against exchange rate risk by utilising appropriate financial derivative instruments. In 2009, the Group formalised its Exchange Rate Risk Management Guideline, which specified division of duties, scope of work, risk identification, quantification and control for the various departments.

***(3) Other price risk management***

Other price risk is largely derived from the equity investments held by the Group and other commodity-linked bonds and derivatives. Most equity investments were obtained due to historical reasons or foreclosure. The Group is of the view that the risk faced by the Group is not significant.

***(4) Market risk analysis***

The Group mainly deploys sensitivity analysis for assessment and quantification of market risks on the trading and banking books.

**Interest rate risk and sensitivity analysis**

As at the end of 2009, the Group's assets and liabilities at carrying amounts in the next repricing date or maturity (whichever is earlier) are as follows:

*(in millions of RMB)*

| | Due in 1 month | Due between 1 month and 3 months | Due between 3 months and 1 year | Due between 1 year and 5 years | Due in more than 5 years | No interest | Total |
|---|---|---|---|---|---|---|---|
| Total assets | 1,201,396 | 352,922 | 1,122,869 | 366,372 | 172,083 | 93,495 | 3,309,137 |
| Total liabilities | (1,876,228) | (358,003) | (564,965) | (240,689) | (33,810) | (71,017) | (3,144,712) |
| Net exposure | (674,832) | (5,081) | 557,904 | 125,683 | 138,273 | 22,478 | 164,425 |

The table below illustrates the potential impact of a simple 100 basis points (bp) change in the interest rate to the net interest income and to the reported equity on the assets and liabilities as of the Reporting Period:

*(in millions of RMB)*

| | **Expected change in net interest income** | | Change in equity | |
|---|---|---|---|---|
| | **As at 31 December, 2009** | As at 31 December, 2008 | **As at 31 December, 2009** | As at 31 December, 2008 |
| All Yields increase 100 bp | **5,387** | 5,175 | **(1,951)** | (1,727) |
| All Yields decrease 100 bp | **(5,387)** | (5,175) | **2,055** | 1,846 |

**Exchange rate risk and sensitivity analysis**

As at 31 December 2009, the Group's foreign exchange risk exposure is as follows:

*(in millions of RMB)*

| | **RMB** | **US$ converted to RMB** | **HKD converted to RMB** | **Other currencies converted to RMB** | **Total** |
|---|---|---|---|---|---|
| Total assets | 3,026,303 | 172,605 | 79,279 | 30,950 | 3,309,137 |
| Total liabilities | (2,894,682) | (139,736) | (79,599) | (30,695) | (3,144,712) |
| Net exposure | 131,621 | 32,869 | (320) | 255 | 164,425 |

The table below illustrate the potential impact from the change of RMB against US dollar, HK dollar and other currencies by 5% on the Group's net profits and reported equity on the assets and liabilities as of the Reporting Period:

*(in millions of RMB)*

| | **Net profit/(loss)** | | **Equity** | |
|---|---|---|---|---|
| | **December 31, 2009** | December 31, 2008 | **December 31, 2009** | December 31, 2008 |
| RMB appreciate 5% | **(747)** | (885) | **(496)** | (196) |
| RMB depreciate 5% | **747** | 885 | **496** | 196 |

## 5. Operational risk management

In 2009, the Group accelerated the development of its operational risk management systems. The Group implemented a classification framework for operational risk, established auxiliary policies and measures and introduced an operational risk management system. The Group completed the consolidation and analysis on all business products and process flows of the Bank, identified risk areas and proposed relevant control measures. The Group applied operational risk management tools to evaluate risk and controls, started to collect data on loss incurred and developed a preliminary key risk indicators system.

The accounting and settlement business management structure and operational mechanism were further enhanced. In 2009, the Group organised a number of accounting case evaluations for potential risks. The Group continued to conduct operation self-assessment, risk warning and accounting risk classification. The Group optimised risk management and warning tools and strengthened the supervision and fore-warning on accounting operations. The Group also strengthened cash operations management through the use of technologies and accelerated its process reengineering, including the cash vault operations.

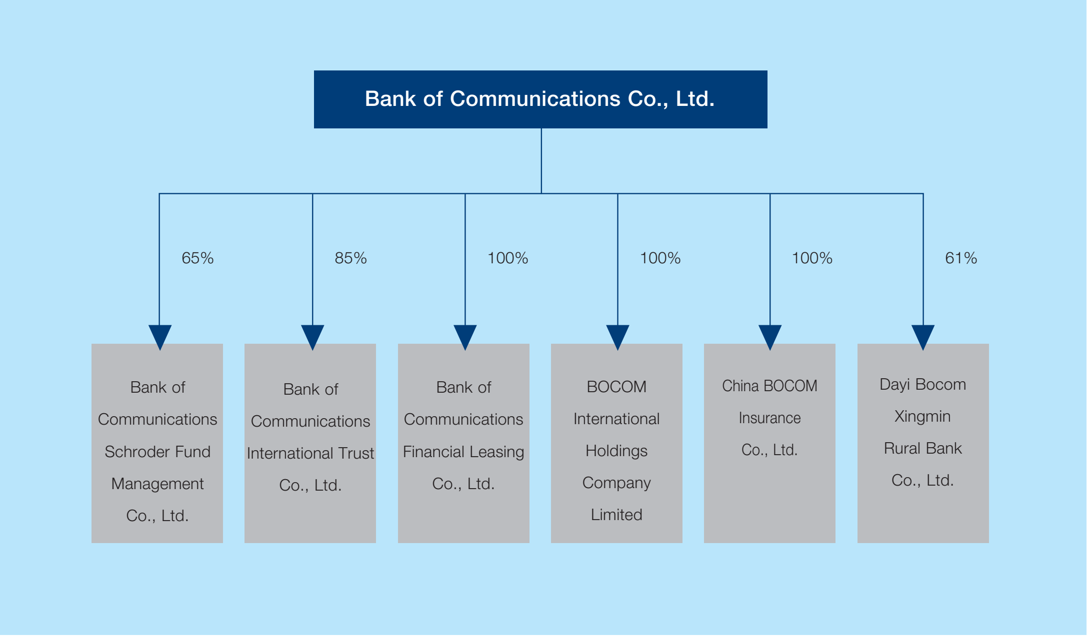
Operational risk management on information systems is healthy, with all main IT systems in stable state. In 2009, the Group, in accordance to the principle of "centralised leadership and hierarchical responsibilities", established a crisis management mechanism to handle emergencies and catastrophes. The Group also consolidated its information systems, implemented information technology security tools and organised training for information security. The Group also stepped up the protection on major information systems according to level of importance, and effectively prepared for a safe and secure IT system infrastructure for the 2010 Shanghai World Expo.

Preparation for anti-fraud risk management is progressing steadily. In 2009, the Group enhanced its anti-fraud management, and conducted examination on high-risk areas and non-compliance by staff. The Group designed and started to build phase one of the anti-fraud system with trial live-runs at some branches.

## 6. Anti-money-laundering

The Group progressively established an Anti-Money-Laundering ("AML") system on the basis of systematic development, together with the focus on its internal control system and the application of its system platform as security measures. In 2009, the Group continuously intensified AML management, with system development and enhancement of AML management measures. The Bank also enhanced its on-site checks and guidance on AML, with more attention on reporting and investigation of large and suspicious transactions and the related off-site monitoring.

## 9. OPERATIONS OF MAJOR SUBSIDIARIES




### 1. Bocom Schroder

Bocom Schroder was set up in August 2005 with a registered capital of RMB200 million with shareholdings by the Bank of Communications Co., Ltd., Schroder Investment Management Limited and the China International Marine Containers (Group) Co., Ltd. at 65%, 30% and 5% respectively. During the Reporting Period, the fund's business improved steadily. Nearly 20 clients subscribed to the "one to one" dedicated wealth management accounts, with actual scale of operation of nearly RMB1.5 billion. The business of "one to many" dedicated wealth management accounts grew rapidly with the success of obtaining 5 clients and the scale of management nearing RMB1.5 billion. At the end of the Reporting Period, the fund's total assets under management reached RMB923.92 billion, an increase of 91% from the beginning of the year. Its ranking rose from No. 12 at the end of 2008 to No. 9, and No. 1 amongst bank-affiliated fund managers. During the Reporting Period, it realised a net profit of RMB362 million, an increase of 32.12% as compared to the corresponding period of the previous year.

### 2. Bocom International Trust

Bocom International Trust was set up in October 2007 with a registered capital of RMB1.2 billion. It is 85% owned by the Bank and 15% owned by Hubei Province Finance Bureau. During the Reporting Period, the Trust's core business grew rapidly, its business structure was continuously optimised and its synergy with the Bank is obvious. In 2009, 173 new trust plans totalling RMB45.1 billion were launched. Existing trust plans had an average volume of RMB243 million, an increase of 21% from the corresponding period of previous year. Average term was 503 days, an increase of 53% from the corresponding period of previous year. The Bocom International Trust and the Bank jointly issued 157 joint trust plans with total assets of RMB40.9 billion, effectively meeting the demand for wealth management services of middle to high-end clients, strengthening and enhancing current client relationships. 138 trust plans amounting to RMB30.2 billion were settled. At the end of the Reporting Period, the Trust had total assets under management reaching RMB39.531 billion and net profit of RMB68.70 million.

3. Bocom Leasing

Bocom Leasing was set up in December 2007 with a registered capital of RMB2 billion and wholly owned by the Bank. In 2009, relying upon its own advantages. it saw steady growth in its leasing business. It invested in metro projects such as Chongqing Light Rail, Tianjin Underground and Changchun Light Rail, and bus projects in Xi'an and Qingdao. It also actively developed its finance leasing business with manufacturers, with 58 finance leasing deals secured with total investment amount of RMB10.169 billion. At the same time, it sought cooperation with the Bank and BOCOM International Trust to optimise its competitive advantage. In 2009, it had a market share in terms of new asset scales, of 9.1% among 12 national finance leasing companies and realised net profit of RMB155 million, an increase of 384.38% as compared to the corresponding period of the previous year.

4. Bocom International

Bocom International was set up in May 2007 (established through the restructuring of BOCOM Securities Co., Ltd., a wholly-owned subsidiary of the Bank) with a registered capital of HKD2.0 billion and is wholly owned by the Bank. It has three subsidiaries, namely BOCOM International (Asia) Limited, BOCOM International Securities Limited and BOCOM International Asset Management Limited. Its principal business includes investment banking, securities proprietary trading and asset management. In 2009, the investment banking business completed 8 compliance consulting and financial consulting projects, 11 co-lead underwriter and underwriter projects and 5 Initial Public Offerings joint lead underwriter and joint book runner projects. Net profit for the whole year was HKD145.69 million.

5. Bocom Insurance

Bocom Insurance was set up in November 2000 with a registered capital of HKD400 million and is wholly owned by the Bank. In 2009, BOCOM Insurance had premium income of HKD95.65 million from the insurance business, an increase of 9.87% as compared to the corresponding period of the previous year and net profit of HKD55.48 million.

6. Bocom Xingmin Rural Bank

Bocom Xingmin Rural Bank was set up in August 2008 with a registered capital of RMB60 million, with 61% of its shares held by the Bank. In 2009, Bocom Xingmin Rural Bank continued to provide new financial services and innovative financial products to enhance business functions such as marketing. It actively supported "agriculture, farmers and the countryside" — related businesses and issued the bank card Xingmin Card, becoming the first rural domestic bank to get the permit from China UnionPay to issue such debit cards. As at the end of the Reporting Period, its total assets reached RMB183.36 million, an increase of 176.10% from the beginning of the year, and net profit was RMB585.7 thousand.

## 10. COOPERATION WITH THE INTERNATIONAL STRATEGIC INVESTOR

In 2009, with the background of the continuing global financial crisis, and that the foreign strategic investors significantly reduced their holdings in the shares of Chinese banks, the Bank together with its foreign strategic partner, HSBC, based on a strong shareholding agreement, continued to enhance their strategic cooperation in different areas to create a win-win cooperation.

During the Reporting Period, senior management from both banks kept close communication via means such as formal and informal meetings and correspondences. There were regular summits conducted at the chairman/president level and routine meetings at the executive president level to share experiences and successes on the cooperation, discuss and resolve problems arising from the cooperation and advance the development and depth of the cooperation to higher levels.

In terms of the principles of "initiating wisdom" and "establishing policy", the Bank is dedicated in adopting the advanced experience and success of HSBC in areas of internationalisation, integration, remuneration management, internal ratings, risk management and international shipping finance, actively promote the interactive technology-sharing and cooperation with HSBC. During the Reporting Period, both banks shared their experiences in relevant business sectors and international and domestic markets through technical training, staff exchange programme, expert opinions and seminars. During the Reporting Period, chairman of the Bank had a symposium with HSBC experts and listened to the opinions from more than 10 of them (who were posted to various business units of the Bank) about management and future development of the Bank.

Both banks expanded in areas of cooperation and the advantages of complementing each others' resources is realised.

— Credit card business:
The development of the credit card business jointly managed by the two banks gained much momentum. The first quarter of 2009, it achieved profits one and a half year before schedule. As at the end of 2009, there were more than 15 million credit cards in circulation and the annual spending on the credit cards reached RMB160 billion. Currently, both banks are actively promoting the setting up of a joint venture credit card company.

— Corporate banking business:
On the corporate banking front, through the sharing of clients between the two banks, both banks jointly provided financial services to famous multinational corporations and environment-friendly projects. The third-party account enquiries functions and the second phase of corporate banking system integration between the two banks both passed client trials and program upgrading. This gave rise to a more stable system and facilitated its deployment into the next phase, increasing the capabilities of both banks in serving multinationals in global cash flow management. The Bank is also actively exploring possible ways to cooperate in rural finance and has already seen some progresses.

— International business:
On the international business front, our cooperation in cross-border RMB trade settlement, express remittance, letter of credit notification, trade finance, foreign currency settlement saw great progress. In particular, cross-border RMB trade settlement, as a new initiative, was a major area for cooperation during the year. On 6 July, 2009, the Bank, as a pilot domestic bank, in cooperation with HSBC, was among the first in the industry to launch the cross-border RMB trade settlement business. Meanwhile, as the correspondent bank of HSBC in mainland China, the Bank closely cooperated with HSBC on businesses such as cross-border RMB trade settlement and RMB transactions. As at the end of the Reporting Period, HSBC subsidiaries in Southeast Asia set up 15 RMB accounts with the Bank thereby laying a firm foundation to jointly work on cross-border RMB trade settlement.

In future, both banks will focus on strengthening their co-operation, further improve technical co-operation and technology exchange, develop potential business co-operation, extend the scope of co-operation to consolidate and improve the results of such co-operation.

— Increasing the extent of technical cooperation and exchange. Both parties plan to start a new senior management skill development programme in 2010. The Bank seeks to understand and learn from HSBC's development strategies for different lines of business, product technology, and management experience to act as examples for the Bank's operational management. Besides, the Bank seeks to cooperate more with HSBC in other technical areas, so as to share and complement experience and resources.

— Continuing in advancing our cooperation in the credit card business. Both parties will expedite the process of incorporating a credit card company and continue to set up this joint venture as soon as practicable. This should provide the support to the credit card business development in terms of channels, manpower, technology and finance among others under the joint venture framework.

— Continuing in-depth cooperation in key business areas. Priorities are the cross selling to key clients, integrations of corporate banking system, cross-border RMB trade settlement, rural finance and joint financial product to deepen the business cooperation between the two banks.

## 11. OUTLOOK FOR 2010

The rebound from the global financial crisis is expected to continue in 2010 as the Chinese economy is already in the "post-crisis" period. The focus of the macroeconomic policy has thus shifted from crisis response to recovery management. However, the pace of the economic recovery is still clouded with uncertainties and risks that had caused the crisis are not fully eliminated with unstable foundation for global economic growth. From an industry perspective, the banking sector is likely to face tighter banking regulation as a result of government policies (rather than from the market) and competition is likely to occur in various new forms. The Group will continue its development strategy of being "a first-class publicly-listed universal banking group with niche in wealth management and the aim for international expansion" to face new opportunities and challenges by focusing on the following aspects:

1. Implementing the Central Government's macroeconomic policies and maintaining a balanced development and responding continuously to industrial upgrading and restructuring.

2. Accelerating the strategic transformation, promoting development measures and optimisation of business model and enhancing its capacity for sustainable development.

3. Strengthening internal control and comprehensive risk management, monitoring current key risks for possible increase in provision and enhancing its ability against risks.

4. Focusing on the strategy of building "a first-class publicly-listed universal banking group with niche in wealth management and aim for international expansion", improving concerted development mechanism, actively supporting the "Shanghai Two-Center Plan" and sustaining competitive advantage.

5. Providing excellent financial services to Shanghai World Expo, to ensure that services are safe, efficient and of high quality, while capitalising business opportunities arising to enhance service and brand image.

6. Promoting enhancements to its mechanism for a strong foundation to continue the improvements in management and operational capabilities.


*Refine management and accelerate innovation*

# Details of Changes in Share Capital and Shareholdings of Substantial Shareholders

## 1. DETAILS OF CHANGES IN SHARE CAPITAL

As at 31 December 2009, the Bank had a total of 435,773 shareholders with 389,700 shareholders holding A shares and 46,073 shareholders holding H shares.

| | 1 January 2009 | | Increase/(decrease) during the Reporting Period | | | | | 31 December 2009 | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Percentage (%) | Issue of new shares | Bonus shares | Shares transferred from the surplus reserve | Others | Sub-total | Number of shares | Percentage (%) |
| **1. Shares subject to restriction on sales** | | | | | | | | | |
| 1. State-owned shares | 9,974,982,648 | 20.36 | – | – | – | – | – | 9,974,982,648 | 20.36 |
| 2. Shares held by state-owned entities | – | – | – | – | – | – | – | – | – |
| 3. Shares held by other domestic investors | | | | | | | | | |
| Comprising: | | | | | | | | | |
| Shares held by domestic legal persons | – | – | – | – | – | – | – | – | – |
| Shares held by domestic natural persons | – | – | – | – | – | – | – | – | – |
| 4. Shares held by Foreign investors | | | | | | | | | |
| Comprising: | | | | | | | | | |
| Shares held by foreign legal persons | – | – | – | – | – | – | – | – | – |
| Shares held by foreign natural persons | – | – | – | – | – | – | – | – | – |
| **2. Shares not subject to restriction on sales** | | | | | | | | | |
| 1. RMB – denominated ordinary shares | 15,954,932,919 | 32.57 | – | – | – | – | – | 15,954,932,919 | 32.57 |
| 2. Domestically listed foreign shares | – | – | – | – | – | – | – | – | – |
| 3. Overseas listed foreign shares | 23,064,468,136 | 47.07 | – | – | – | – | – | 23,064,468,136 | 47.07 |
| 4. Others | – | – | – | – | – | – | – | – | – |
| **3. Total** | 48,994,383,703 | 100.00 | – | – | – | – | – | 48,994,383,703 | 100.00 |

## 2. PARTICULARS OF SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS SUBJECT TO RESTRICTION ON SALES AND DETAILS OF RESTRICTION

As at 31 December 2009, there is only one shareholder of the Bank holding shares, which are subject to restriction on sales and the particulars of its shareholdings is as follows:

| Name of shareholder | Number of shares subject to restriction on sales | Date on which shares become tradable | Number of tradable shares | Restrictions |
|---|---|---|---|---|
| Ministry of Finance of the People's Republic of China | 9,974,982,648 | 16 May 2010 | 9,974,982,648 | 36 months |

## 3. PARTICULARS OF SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS AND TOP 10 SHAREHOLDERS NOT SUBJECT TO RESTRICTION ON SALES (ACCORDING TO THE BANK'S REGISTER OF SHAREHOLDERS MAINTAINED AT ITS SHARE REGISTRAR)

### 1. Shareholdings of top 10 shareholders

| Name of shareholder | Nature of shareholder | Shareholding percentage (%) | Number of shares held | Number of shares subject to restrictions on sales | Number of pledged or frozen shares[1] |
|---|---|---|---|---|---|
| Ministry of Finance of the People's Republic of China | State | 26.48 | 12,974,982,648 | 9,974,982,648 | Nil |
| HKSCC Nominees Limited[2] | Foreign-owned | 21.91 | 10,733,072,016 | — | |
| The Hongkong and Shanghai Banking Corporation Limited[3] | Foreign-owned | 18.60 | 9,115,002,580 | — | Nil |
| Capital Airports Holding (Group) Company | State-owned | 2.01 | 985,447,500 | — | |
| State Grid Asset Management Company Limited | State-owned | 0.92 | 451,445,193 | — | |
| Shanghai Tobacco (Group) Corp. | State-owned | 0.77 | 378,328,046 | — | |
| Yunnan Hongta Group Co. Ltd. | State-owned | 0.71 | 346,787,979 | — | |
| Sinopec Finance Company Limited | Domestic legal person | 0.62 | 304,320,800 | — | |
| Daqing Petroleum Administration Bureau | State-owned | 0.48 | 233,151,118 | — | |
| China Huaneng Group | State-owned | 0.40 | 198,041,710 | — | |

Note:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been frozen or pledged, or of the existence of any connected relationship between the above shareholders.
2. This represents the aggregate number of shares held by HKSCC Nominees Limited as nominees for all institutional and individual investors that maintain an account with it as at 31 December 2009. According to the information provided by SSF, SSF held 5,555,555,556 H shares of the Bank as at 31 December 2009, representing 11.34% of the total issued share capital of the Bank and all these shares have been transferred to HKSCC Nominees Limited. (same applies hereinafter)

3. According to the Bank's register of shareholders kept by Computershare Hong Kong Investor Services Limited, HSBC held 9,115,002,580 H shares of the Bank as at 31 December 2009. In addition, according to the disclosure of interests forms filed with the Hong Kong Stock Exchange, by HSBC Holding plc, HSBC beneficially held 9,312,013,580 H shares of the Bank, and, through its subsidiaries, indirectly held 69,470,681 H shares of the Bank as at 31 December 2009. In aggregate, HSBC held 9,381,484,261 H shares of the Bank, representing 19.15% of the total issued share capital of the Bank. Please refer to "4 Substantial Shareholders and Holders of Interests or Short Positions Required to be Disclosed under Division 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance" set out below for details. (same applies hereinafter)

### 2. Shareholding of the top 10 shareholders not subject to restriction on sales

| Name of shareholder | Number of shares held | Shareholding percentage (%) | Type of shares |
|---|---|---|---|
| HKSCC Nominees Limited | 10,733,072,016 | 21.91 | H shares |
| The Hongkong and Shanghai Banking Corporation Limited | 9,115,002,580 | 18.60 | H shares |
| Ministry of Finance of the People's Republic of China | 3,000,000,000 | 6.12 | H shares |
| Capital Airports Holding (Group) Company | 985,447,500 | 2.01 | A shares |
| State Grid Asset Management Company Limited | 451,445,193 | 0.92 | A shares |
| Shanghai Tobacco (Group) Corp. | 378,328,046 | 0.77 | A shares |
| Yunnan Hongta Group Co. Ltd. | 346,787,979 | 0.71 | A shares |
| Sinopec Finance Company Limited | 304,320,800 | 0.62 | A shares |
| Daqing Petroleum Administration Bureau | 233,151,118 | 0.48 | A shares |
| China Huaneng Group | 198,041,710 | 0.40 | A shares |
| Connected relations or concerted actions among the above shareholders: | The Bank is not aware of any connected relations among the above shareholders or whether they are parties acting in concert. | | |

## 4. SHAREHOLDERS HOLDING 5% OR MORE OF THE ISSUED SHARE CAPITAL OF THE BANK

### (1) Ministry of Finance

Ministry of Finance, being a constituent part of the State Council, is responsible for various matters, which includes overseeing the country's fiscal revenue, expenditure and taxation policies. Its address is No.3, Nansanxiang, Sanlihe, Xi Cheng District, Beijing, the PRC.

As at 31 December 2009, the Ministry of Finance of the People's Republic of China held 12,974,982,648 shares of the Bank, representing 26.48% of the total issued share capital of the Bank. These shares were neither pledged nor being the subject of any disputes.

(2) HSBC

HSBC is a wholly-owned subsidiary of HSBC Holdings plc. It is principally engaged in providing banking and financial services. HSBC is one of the founding members of HSBC Holding plc, the largest licensed bank in Hong Kong and one of the three note-issuing banks in Hong Kong. HSBC is the strategic investor of the Bank. Its address is 1 Queen's Road Central, Hong Kong.

As at 31 December 2009, HSBC, directly and indirectly through its subsidiaries, held 9,381,484,261 H shares of the Bank, representing 19.15% of the total issued share capital of the Bank. These shares were neither pledged nor being the subject of any disputes.

(3) SSF

SSF is a government agency on the ministerial level directly under the State Council. It is responsible for the management and operation of the national social security fund, the management of the proceeds from the reduction of state-owned shares. It also manages funds disbursed by the Ministry of Finance and funds raised from various sources, as well as the selection and engagement of asset management companies to manage the fund assets for asset protection and capital appreciation purposes. Its address is South Block, Fenghui Times Mansion, No.11 Fenghuiyuan, Xicheng District, Beijing.

As at 31 December 2009, SSF held 5,555,555,556 H shares of the Bank, representing 11.34% of the total issued share capital of the Bank. These shares were transferred to HKSCC Nominees Limited. These shares were neither pledged nor being the subject of any disputes.

## 5. SUBSTANTIAL SHAREHOLDERS AND HOLDERS OF INTERESTS OR SHORT POSITIONS REQUIRED TO BE DISCLOSED UNDER DIVISION 2 AND 3 OF PART XV OF THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As at 31 December 2009, the substantial shareholders and other persons (other than the directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Futures Ordinance (the "SFO") were as follows:

| Name of substantial shareholder | Capacity | Number of A shares | Nature of interest[1] | Approximate percentage of issued A shares (%) | Approximate percentage of total issued shares (%) |
|---|---|---|---|---|---|
| Ministry of Finance of the People's Republic of China | Beneficial owner | 9,974,982,648 | Long position | 38.47 | 20.36 |

| Name of substantial shareholder | Capacity | Number of H shares | Nature of interest[1] | Approximate percentage of issued H shares (%) | Approximate percentage of total issued shares (%) |
|---|---|---|---|---|---|
| SSF | Beneficial owner | 5,555,555,556 | Long position | 24.09 | 11.34 |
| Ministry of Finance of the People's Republic of China | Beneficial owner | 3,000,000,000 | Long position | 13.01 | 6.12 |
| The Hongkong and Shanghai Banking Corporation Limited | Beneficial owner | 9,312,013,580 | Long position | 40.37 | 19.01 |
| | Interest of controlled corporation[2] | 69,470,681 | Long position | 0.30 | 0.14 |
| | Total: | 9,381,484,261 | | 40.67 | 19.15 |
| HSBC Finance (Netherlands) | Interest of controlled corporation[3] | 9,381,484,261 | Long position | 40.67 | 19.15 |
| HSBC Bank plc | Interest of controlled corporation[4] | 309,481 | Long position | 0.0013 | 0.0006 |
| HSBC Holdings plc | Interest of controlled corporation[5] | 9,381,793,742 | Long position | 40.67 | 19.15 |

Notes:

1. Long positions held other than through equity derivatives.
2. HSBC holds 62.14% interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the H shares which are held by Hang Seng Bank Limited.
   Hang Seng Bank Limited is deemed to be interested in the 69,470,681 H shares held by its wholly-owned subsidiaries. Such 69,470,681 H shares represent the aggregate of 7,139,564 H shares indirectly held by Hang Seng Bank (Bahamas) Limited, 61,532,838 H shares directly held by Hang Seng Bank Trustee International Limited and 798,279 H shares directly held by Hang Seng Bank (Trustee) Limited.
   Hang Seng Bank (Bahamas) Limited is deemed to be interested in the 7,139,564 H shares held by its wholly-owned subsidiary, Hang Seng Bank Trustee (Bahamas) Limited.
3. HSBC is wholly-owned by HSBC Asia Holdings BV. HSBC Asia Holdings BV is, in turn, wholly-owned by HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) is, in turn, wholly-owned by HSBC Holdings BV. HSBC Holdings BV is, in turn, wholly-owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK), HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to be interested in the 9,381,484,261 H shares which HSBC has an interest.
4. HSBC Financial Products (France) holds 309,481 H shares. HSBC France owns an equity interest of 58.25% in HSBC Financial Products (France) while the remaining 41.75% equity interest is held by HSBC Securities (France) SA, a wholly-owned subsidiary of HSBC France. HSBC France is, in turn, wholly-owned by HSBC Bank plc. Pursuant to the SFO, each of HSBC Securities (France) SA, HSBC France and HSBC Bank plc is deemed to be interested in the 309,481 H shares held by HSBC Financial Products (France).
5. HSBC Finance (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Notes 2, 3, 4 and the SFO, HSBC Holdings plc is deemed to be interested in the 9,381,484,261 H shares in which HSBC has an interest in and the 309,481 H shares in which HSBC Bank plc has an interest.

Except as disclosed above, no person or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as at 31 December 2009.

# Directors, Supervisors, Senior Management and Staff

## 1 PROFILE OF DIRECTORS

**Mr. Hu Huaibang**, aged 54, joined the Bank in September 2008 and serves as Chairman of the Board of Directors and Executive Director of the Bank. Mr. Hu was Chairman of the Supervisory Board of China Investment Corporation from September 2007 to August 2008, Director of the office of the Board of Supervisors and Secretary of the Discipline Inspection Commission of CBRC from July 2003 to September 2007, Deputy Governor of PBOC Chengdu Branch, Governor of PBOC Xi'an Branch and Director-General of the State Administration of Foreign Exchange Shannxi Branch from June 2000 to July 2003, the Executive Vice President and President of Financial and Banking Institute of China from March 1997 to June 2000. Mr. Hu received his doctorate in economics from Shannxi Institute of Finance and Economics in 1999. Mr. Hu was appointed Chairman of the Board of Directors and executive director of the Bank since September 2008.

**Mr. Niu Ximing**, aged 53, joined the Bank in December 2009 and serves as Vice Chairman and Executive Director of the Board of Directors and President of the Bank. Mr. Niu served in several positions in the Industrial and Commercial Bank of China ("ICBC") from July 1986 to December 2009, including Vice President and President of Xining Branch, ICBC, Vice Director, Director and General Manager of credit department of ICBC, President of Beijing Branch, Assistant President of ICBC and President of Beijing branch, Vice President of ICBC, Executive Director and Vice President of ICBC. Mr. Niu received a master's degree in Economics from Harbin Industrial University in 1997. Mr. Niu was appointed Vice Chairman and Executive Director of the Board of Directors of the Bank since December 2009.

**Mr. Peng Chun**, aged 48, joined the Bank in January 1994 and serves as Executive Director and Vice President of the Bank. Mr. Peng has served as Vice President of the Bank since September 2004. He also served as Assistant to President of the Bank from September 2001 to September 2004, Vice President and President of Urumqi Branch, President of Nanning Branch and President of Guangzhou Branch from 1994 to 2001. Mr. Peng received a Master's degree in economics in Graduate School of PBOC in 1986. Mr. Peng has served as Executive Director of the Bank since August 2005.

**Mr. Qian Wenhui**, aged 48, joined the Bank in October 2004 and serves as Executive Director and Vice President of the Bank. Mr. Qian has served as Vice President of the Bank since October 2004 (and concurrently served as President of Shanghai Branch from July 2005 to November 2006). Before joining the Bank, Mr. Qian worked in China Construction Bank ("CCB"), served successively as Director of the General Office of the Asset and Liability Management Committee of CCB and concurrently served as Vice President of CCB Shanghai Branch; Director of the General Office of the Asset and Liability Management Committee of CCB and Director of System Reform Office and concurrently served as Vice President of Shanghai Branch General Manager of Asset and Liability Management Department, General Manger of Asset and Liability Management Department and concurrently served as Director of Restructuring Office. Mr. Qian received a MBA degree from Shanghai University of Finance and Economics in 1998. Mr. Qian has served as Executive Director of the Bank since August 2007.

**Mr. Zhang Jixiang**, aged 56, serves as Non-executive Director of the Board of Directors. Before joining the Bank, Mr. Zhang served as Inspector of the General Department of the Ministry of Finance from January 2003 to September 2004; as Deputy Director of the Basic Construction Department and Deputy Director of the General Department of Ministry of Finance from July 1998 to January 2003; as Deputy Director and Director of the Foreign Studies Office of the Research Institute, as Deputy Director and Director of the Property Ownership Department, and Director of Asset Appraisal Centre of the State Administration of State-Owned Assets from October 1990 to July 1998. Mr. Zhang received a Ph.D. degree in economics from the Chinese Academy of Social Sciences in 1989. He is also qualified as a Chinese Certified Public Accountant and a Chinese Certified Public Valuer. Mr. Zhang has served as Executive Director of the Bank and Secretary of the Board of Directors from September 2004 to July 2007, as Non-executive Director and Secretary of the Board of Directors from August 2007 to August 2009 and as Non-executive Director since September 2009.

**Mr. Hu Huating**, aged 52, serves as Non-executive Director. Mr. Hu served in several positions in Ministry of Finance from December 1978 to September 2004, including Director of the Bureau for Retired Officials, Deputy Director General of Economic Development Department, Assistant Inspector of Basic Construction Department and Director of General Department, Director of Second Investment Division, Director of Second Division of Overseas Budget and General Planning Department, Deputy Director of the Special Division of Agricultural Taxation Department, Deputy Director of the Central Division of the Department of Overseas Budget Management, Deputy Director of the Salary and Pricing Division of General Planning Department and Secretary of General Office, among others. Mr. Hu received a postgraduate degree in investment economics from Northeast University of Finance and Economics in 1998. Mr. Hu has served as Non-executive Director of the Bank since September 2004.

**Mr. Qian Hongyi**, aged 58, serves as Non-executive Director of the Bank. Mr. Qian served successively as Deputy Financial Supervisor and Financial Supervisor of the Financial Supervisor's Office stationed by the Ministry of Finance in Jiangsu from March 1995 to July 2008. He was Director of the Financial Division for Industrial and Transport Enterprises under the Department of Finance of Jiangsu Provincial from September 1989 to March 1995. He served as Deputy Chief of the First Taxation Administration Section, Director of the Tax Supervision Section and Director of the No. 4 and No. 2 Taxation Administration Divisions of Jiangsu Province from August 1979 to August 1989. Mr. Qian graduated from the Department of Finance of Renmin University of China in 1986. Mr. Qian has served as Non-Executive Director of the Bank since August 2008.

**Mr. Peter Wong Tung Shun**, aged 58, serves as Non-executive Director of the Bank. He currently also hold the post of Executive Director of HSBC, the substantial shareholder of the Bank, Group General Manager of HSBC Holdings plc and member of Management Committee of HSBC Holdings plc and concurrently serve as Vice Chairman of HSBC Bank (China) Company Limited. Mr. Wong serves as Chairman of seven rural banks of HSBC in China. Mr. Wong also serves as Chairman of HSBC Insurance (Asia-Pacific) Holdings Limited and HSBC Life (International) Ltd. He is also a Non-executive Director of Hang Seng Bank Limited and Ping An Insurance (Group) Company of China, Ltd. and serves as Independent Non-executive director of Cathay Pacific Airways Ltd. and manager of Hang Seng School of Commerce.

Mr. Wong has served as Director of Hong Kong Interbank Clearing Limited and Hong Kong Interbank Clearing Services Limited since April 2005 and their President since January 2010. Before joining HSBC in April 2005, Mr. Wong was with Citibank and Standard Chartered Bank. Mr. Wong received a master's degree in marketing and finance and in computer science from the Indiana University of USA in 1976 and 1979 respectively. Mr. Wong has served as Non-Executive Director of the Bank since August 2005.

**Ms. Laura M. Cha**, aged 60, recipient of the Gold Bauhinia Star, is currently a Non-Executive Director of the Bank. Ms. Cha is currently a Non-Official Member of Executive Council of the Hong Kong Special Administrative Region and the Vice Chairman of the International Advisory Council of the China Securities Regulatory Commission, a Non-executive Director and Vice Chairman of the Hongkong and Shanghai Banking Corporation Limited. In addition, Ms. Cha is also an Independent Non-Executive Director of Hong Kong Exchanges and Clearing Limited, Tata Consultancy Services Limited and China Telecom Corporation Limited. Ms. Cha served as the Vice President of the China Securities Regulatory Commission from March 2001 to September 2004; as Assistant Director of Corporate Finance, Senior Director and Executive Director Department and as the Deputy Chairman at Securities and Futures Commission of Hong Kong from 1991 to 2001. Ms. Cha received a doctorate degree in law from Santa Clara University, United States in 1982. Ms. Cha has been a Non-Executive Director of the Bank since June 2006.

**Mr. Ji Guoqiang**, aged 44, is currently a Non-executive Director of the Bank. Mr. Ji has been a member of the Third Youth Federation of the Central Government Departments since 2005, and also is a Non-Executive Director of Beijing-Shanghai High-Speed Railway Co., Ltd. and Bohai Industrial Investment Fund Management Co., Ltd. Mr. Ji worked in the General Office of the Ministry of Finance from August 1988 to March 2003, successively as its Section Officer, Deputy Secretary in the Minister's Office and Secretary of the Minister's Office. Mr. Ji was with the National Council for Social Security Fund from March 2003 to the present, served successively as Secretary of the Office, Deputy Director of Equity and Assets Department, Deputy Secretary of Party Committee and Deputy Director of the Personnel Department (Presiding), and Director of the Equity and Assets Department (Industrial Investment). Mr. Ji obtained a MBA degree from Beijing University in 2007. Mr. Ji has been a Non-Executive Director of the Bank since August 2008.

**Mr. Lei Jun**, aged 40, is currently a Non-executive Director of the Bank. Mr. Lei is the General Manager of the Operation Department of Beijing Capital International Airport Company Limited from June 2005 and also a Director of GoldState Securities Co., Ltd., China Minzu Securities Co., Ltd. and Suzhou Guoxin Group Co., Ltd. He served as General Manager of the Mergers and Acquisitions Department of GoldState Securities Co., Ltd. from January 2005 to June 2005; as Supervisor of the Department of Management and Innovation of Baosteel Group Corporation from October 2003 to January 2005 and Division Deputy General Manager of Fortune Trust & Investment Co., Ltd. from June 1998 to October 2003. Mr. Lei obtained a MBA degree from the University of Hong Kong in 2000. Mr. Lei has been a Non-executive Director of the Bank since August 2008.

**Mr. Yang Fenglin**, aged 40, is currently a Non-executive Director of the Bank. Mr. Yang currently serves as Vice President of Yingda Securities Co., Ltd. Mr. Yang served as the Deputy Director of the Financial Asset Management Department of State Grid Corporation of China from September 2006 to November 2008; as Assistant to the President of Pengrun Investment Limited from February 2006 to September 2006; as General Manager of the Fund Management Department of Coastal Greenland Limited from October 2005 to February 2006; as Executive Director, Deputy General Manager, and Managing Director of Guotai Junan Securities (Hong Kong) Ltd from July 2002 to August 2005 and Deputy Manager to the Board of Supervisors and Deputy General Manager of the International Business Department of Guotai Junan Securities Co., Ltd. from July 1999 to July 2002. Mr. Yang received a Ph.D. in engineering from Xi'an Jiaotong University in 1997. Mr. Yang has been a Non-Executive Director of the Bank since August 2007.

**Mr. Xie Qingjian**, aged 66, is currently an independent Non-executive Director of the Bank and retired in June 2008. Mr. Xie was with the People's Bank of China's system for several years at various positions including Advisor, Governor of Nanjing Branch, Governor of Shanghai Branch, Vice Governor of Zhejiang Branch, Governor of Zhejiang Branch, and Governor of Wenzhou Branch, among others. Mr. Xie received a Master's degree in economics from Zhejiang University in 1998. Mr Xie has served as Independent Non-executive Director of the Bank since September 2004.

**Mr. Ian Ramsay Wilson**, aged 69, awarded Member of the Most Excellent Order of the British Empire, serves as Independent Non-executive Director of the Bank. Mr. Wilson retired from Standard Chartered Bank in 1998. Before that, Mr. Wilson served as General Manager of Standard Chartered Bank for the regions of Hong Kong, China and Northeast Asia from 1994 to 1998. Prior to this, Mr. Wilson was General Manager for the regions of Middle East and South Asia from 1992 to 1994, and Chief Executive Officer of Hong Kong Branch from 1990 to 1992. Mr. Wilson had been Chairman of Hong Kong Interbank Clearing Limited, the Chairman of the Hong Kong Association of Banks, First Deputy Chairman of Hong Kong Securities Clearing Company Limited and member of the Board of Directors of Hong Kong Red Cross. Mr. Wilson has served as Independent Non-executive Director of the Bank since September 2004.

**Mr. Thomas Joseph Manning**, aged 54, serves as Independent Non-executive Director of the Bank. Mr. Manning currently serves as CEO of Indachin Ltd and Chairman of Next Horizon Ltd., and Independent Non-Executive Director of AsiaInfo Holdings Inc., and GOME Electrical Appliances Holding Limited. Mr. Manning once served as Chairman and CEO of Cap Gemini Ernst & Young Asia Pacific, as well as Global Managing Director of Strategy & Technology Consulting. Mr. Manning also served as a Director of Bain & Company and member of the firm's China Board. Mr. Manning graduated from Harvard University and received a bachelor's degree of East Asian Studies and received an MBA degree from Stanford University in 1979. Mr. Manning has served as Independent Non-Executive Director of the Bank since September 2004.

**Mr. Chen Qingtai**, aged 72, serves as Independent Non-executive Director of the Bank. He is also a researcher at the Development Research Centre of the State Council, and a professor and a tutor for students studying for doctorate degrees at Tsinghua University and Nankai University. Mr. Chen had been holding high posts in the Nation's Comprehensive Economics Management Department and had successively served as Deputy Director of the State Economic and Trade Commission and Deputy Director of the Development Research Centre of the State Council. Mr. Chen graduated from the Dynamics Department of Tsinghua University in 1962 and has served as an Independent Non-executive Director of the Bank since April 2005.

**Mr. Eric Li Ka-cheung**, aged 56, Justice of the Peace, Officer of the Most Excellent Order of the British Empire (OBE) and a recipient of the Gold Bauhinia Star, is currently an Independent Non-executive Director of the Bank. He is also a senior partner of Li, Tang, Chen & Co and an Independent Non-executive Director of Hang Seng Bank Limited, China Resources Enterprise Limited, CATIC International Holdings Limited, Transport International Holdings Ltd., RoadShow Holdings Limited, SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Ltd. and Meadville Holdings Limited and a Non-Executive director of Sun Hung Kai Properties Limited. Mr. Li is a Fellow Member of the Hong Kong Institute of Certified Public Accountants (Practising), a Fellow Member of The Institute of Chartered Accountants in England and Wales and a Fellow Member of CPA Australia. Mr. Li is concurrently a fellow member of The Institute of Chartered Secretaries and Administrators and Hong Kong Institute of Chartered Secretaries. Mr. Li received a bachelor of arts (Economics) honours degree from the University of Manchester and an honorary doctorate from the University of Manchester and the Hong Kong Baptist University. Mr Li has served as an Independent Non-executive Director of the Bank since January 2007.

**Mr. Gu Mingchao**, aged 66, currently serves as Independent Non-executive Director of the Bank and retired in May 2007. Mr Gu is also an Independent Non-executive Director of Kasen International Holdings Limited. Mr. Gu served as the Chairman of the Board of Supervisors of China Galaxy Securities Company Limited, Bank of Communications and Agricultural Bank of China designated by the State Council from July 2000 to August 2007; as Vice President and Executive Director of Import and Export Bank of China from June 1994 to June 2000. Mr. Gu graduated from Shanghai Institute of Foreign Trade in 1968. Mr. Gu has been Independent Non-Executive director of the Bank since August 2007.

## 2. PROFILE OF SUPERVISORS

**Mr. Hua Qingshan**, aged 57, joined the Bank in June 2007 and serves as Chairman of the Board of Supervisors of the Bank. Mr. Hua served as Vice President of Bank of China from December 1998 to June 2007; Non-executive Director of BOC Hong Kong (Holdings) Limited from June 2002 to June 2007; Executive Director of Bank of China from August 2004 to June 2007 and Assistant to the President of Bank of China from May 1994 to December 1998. Mr. Hua received a master's degree in engineering from the University of Hunan in 1996. Mr. Hua has served as Chairman of the Board of Supervisors of the Bank since August 2007.

**Mr. Guan Zhenyi**, aged 44, serves as Supervisor of the Bank. Mr. Guan has served as Vice President of Shanghai Haiyan Logistics Development Co., Ltd. since November 2009. He served as Deputy Chief of the Financial and Pricing Division of and Deputy Chief and Chief of Investment Management Division of Shanghai Tobacco (Group) Corporation from January 2003 to November 2009; Chief of Three Asset Management Department of Shanghai Tobacco (Group) Corporation and concurrently the manager of the Haiyan Commercial Building, Deputy Director and Manager of the Haiyan Commercial Building from September 2000 to January 2003. Mr. Guan obtained a university degree in economic management from Shanghai Branch of PLA Nanjing Institution of Politics in 2002. Mr. Guan has served as Supervisor of the Bank since August 2007.

**Mr. Yang Fajia**, aged 55, serves as Supervisor of the Bank and General Manager of Yunnan Hongta Group Ltd. Mr. Yang has served as the General Manager of Yunnan Hongta Group Ltd. since January 2003. He served as the Deputy General Manager of Yunnan Hongta Group Ltd. from September 1993 to January 2003. Mr. Yang received a university degree in electromechanical science from China University of Mining & Technology in 1980. Mr. Yang has served as Supervisor of the Bank since August 2007.

**Ms. Wang Lisheng**, aged 63, serves as Supervisor of the Bank. She served as the Consultant to China Petrochemical Corporation from October 2008 to November 2009. From September 2006 to November 2008, she served as Chairman of Sinopec Kantos International Limited and Sinopec Kantons Holdings Limited. Ms. Wang served as the Chairman of the Board of Supervisors of Sinopec Finance Co., Ltd. from May 2002 to September 2008. She also served as the Deputy Financial Director of China Petrochemical Corporation from September 2000 to September 2007. Ms. Wang received a Bachelor's degree in finance from Shanghai University of Finance and Economics in 1969. Ms. Wang has served as Supervisor of the Bank since August 2007.

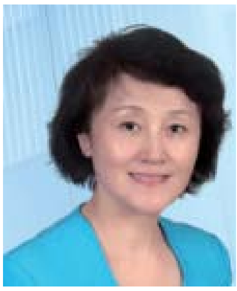
**Mr. Li Jin**, aged 43, serves as Supervisor of the Bank. Mr. Li has served as the Deputy General Manager of Huaneng Capital Service Co., Ltd. since September 2006. He also served as the President of Alltrust Insurance Company of China Limited from January 2005 to September 2006; Deputy General Manager and General Manager of Huaneng Capital Service Co., Ltd. from December 2000 to January 2005. Mr. Li received a Master's degree in Economics of Money and Banking from the Financial Research Institution of the Head Office of PBOC. Mr. Li has served as Supervisor of the Bank since August 2007.

**Mr. Yan Hong**, aged 43, serves as Supervisor of the Bank. Since March 2008, Mr. Yan has served as the Chief Accountant of Daqing Oilfield Limited Liability Company and Daqing Petroleum Administration Bureau. Mr. Yan served as Deputy General Accountant & Director of Finance and Assets Department and the General Accountant of Daqing Petroleum Co., Ltd. from March 2002 to March 2008 and Deputy General Accountant and Director of Finance and Assets in Daqing Oilfield Limited Liability Company of Daqing Petroleum Co., Ltd. from May 2000 to March 2002. Mr. Yan graduated from Shanghai University of Finance and Economics with a MBA in 2003 and from China Europe International Business School with a MBA in 2008. Mr. Yan served as Supervisor of the Bank since August 2008.

**Ms. Zheng Li**, aged 74, Certified Public Accountant, Certified Internal Auditor, serves as External Supervisor of the Bank. Ms. Zheng served as President of the Association of Internal Auditors of China from June 1997 to July 2005; as a member on the CPPCC Ninth National Committee from January 1998 to January 2003; as Audit Commissioner of the State Council from November 1998 to March 2001; as a member of the Board of Supervisors of the China Development Bank from November 1996 to October 1998 and Deputy Auditor General at the National Audit Office from July 1987 to November 1996. Ms. Zheng received a university degree from the Moscow Institute of Finance of the former Soviet Union in 1959. Ms. Zheng has served as External Supervisor of the Bank since August 2007.

**Mr. Jiang Zuqi**, aged 69, serves as External Supervisor of the Bank. Mr. Jiang served as the Chairman of the Board of Supervisors appointed by the State Council to key state-owned financial institutions from June 2000 to August 2005. During this period, he served as the Chairman of the Board of Supervisors of the Bank from June 2000 to August 2003; as Vice Chairman of the Board and Vice President of the Bank of China and concurrently as a Director of the Hong Kong from August 1995 to June 2000 and Macau Affairs Management Department of Bank of China from August 1997 to February 1999. Mr. Jiang obtained Bachelor's degree in Finance and Accounting from the Commerce and Economics Faculty of the Beijing Institute of Business in 1966. Mr. Jiang has served as External Supervisor of the Bank since August 2007.

**Ms. Liu Sha**, aged 54, joined the Bank in November 2004, currently serves as Employee Representative Supervisor of the Bank. Since September 2005, she has served as the General Manager of Audit Department of the Bank's Northern China Region. Ms. Liu served as the Secretary of the Board of Supervisors from March 2005 to August 2005; as full-time Supervisor of the Bank, appointed by the State Council from August 2003 to October 2004 and as a full-time Supervisor of China Galaxy Securities Company Limited appointed by the State Council from August 2000 to July 2003; as Deputy Director of the Local Tax Bureau of Jinan, Shandong Province from September 1999 to August 2000. Ms. Liu graduated from the Finance Faculty of Dongbei University of Finance and Economics in 1979. Ms. Liu has served as Employee Representative Supervisor of the Bank since November 2004.



**Ms. Chen Qing**, aged 49, joined the Bank in November 2004 and serves as Employee Representative Supervisor of the Bank, Since March 2005, Ms. Chen has served as Director of the General Office of the Board of Supervisors of the Bank. Since November 2004, Ms. Chen was appointed Assistant Supervisor of the Bank and was elected as an Employee Representative Supervisor of the Bank in the same month. Ms. Chen served as Supervisor of Agricultural Bank of China from August 2003 to October 2004; as Deputy Division Chief, Division Director and Supervisor of Bank of China, appointed by the State Council from May 2000 to July 2003. Ms. Chen received an EMBA from Shanghai University of Finance and Economics in 2009. Ms. Chen has served as Employee Representative Supervisor of the Bank since November 2004.

**Mr. Shuai Shi**, aged 41, joined the Bank in November 1992 and serves as Employee Representative Supervisor of the Bank. Since December 2007, Mr. Shuai Shi served as the General Manager of the Employee Work Department and Deputy Director of System Union since January 2008. Mr. Shuai served as Deputy General Manager of the Bank's Huhhot Branch before he was appointed as the General Manager of Staff Department, of the Bank's Head Office from July 2006 to December 2007; as Finance Office Assistant Manager in Inner Mongolia Autonomous Region from February 2004 to January 2006; Senior Manager of Personal Financial Services Division of Shanghai Branch from January 2001 to July 2006. Mr Shuai graduated from the postgraduate economic management major of the Communist Party of China Central Party School in July 2009. Mr. Shuai has served as Employee Representative Supervisor of the Bank since July 2008.

## 3. PROFILE OF SENIOR MANAGEMENT

**Mr. Niu Ximing** (Please refer to details in “1. Profile of Directors”)

**Mr. Peng Chun** (Please refer to details in “1. Profile of Directors”)

**Mr. Qian Wenhui** (Please refer to details in “1. Profile of Directors”)

**Mr. Wang Bin**, aged 51, joined the Bank in January 2000, and serves as Vice President of the Bank. Mr. Wang has served in several positions in the Bank including President of Beijing Branch and President of Tianjin Branch. From December 1993 to January 2000, Mr. Wang served in several positions in the Agricultural Development Bank of China, as Director of the Preparation Office, Director of General Office, President of its Jiangxi Branch. Mr. Wang received a Ph.D. in economics from Nankai University in 2005.

**Ms. Yu Yali**, aged 52, joined the Bank in February 1993 and serves as Vice President and Chief Financial Officer of the Bank. Ms. Yu has served as CFO of the Bank since August 2004 and as General Manager of the Financial Accounting Department and Budgetary Finance Department of the Bank from December 1999 to August 2004. Ms Yu served as Director of Financial Accounting Department and Vice President of the Bank’s Zhengzhou Branch and Deputy General Manager of Financial Accounting Department of Headquarter of the Bank from February 1993 to December 1999. Ms. Yu received an MBA degree from Fudan University in 2006.

**Mr. Shou Meisheng**, aged 53, joined the Bank in January 1992 and serves as Secretary of Discipline Committee and Chief of Bank Industry Labor Union. Mr. Shou served as the General Manager of Human Resources Department of the Bank from May 2005 to December 2007; General Manager of International Banking Department of the Bank and from June 1998 to May 2005, and concurrently served as General Manager of Dalian Branch of the Bank from January 2002 to March 2004; as Deputy General Manager of International Banking Department and concurrently served as Deputy General Manager of Overseas Institutions Department of the Bank from November 1996 to June 1998; as Deputy General Manager of the Comprehensive Planning Department of the Bank from November 1995 to November 1996; as Vice President and President of Shaoxing Branch from January 1992 to November 1995. Mr. Shou received a Ph.D. in economics from Dongbei University of Finance & Economics in 2006.

**Mr. Dicky Peter Yip**, aged 63, joined the Bank in April 2005 and serves as Vice President of the Bank. Before joining the Bank, Mr. Yip served as Chief Executive of China Business of HSBC since January 2003. Mr. Yip worked in several positions in HSBC including Senior General Manager of Personal Banking Service, Senior Manager of Retail Business, Assistant to General Manager of Retail Business, Assistant to General Manager of Personal Banking Service and concurrently Deputy Director of Personal Wealth Management from June 1988 to January 2003. Mr. Yip received an MBA degree from the University of Hong Kong.

**Mr. Hou Weidong**, aged 50, joined the Bank in April 2002, and serves as Chief Information Officer of the Bank. Mr. Hou served as General Manager of the Information Technology Department of the Bank from November 2002 to August 2004; as Deputy General Manager of Computer Department of the Bank and from April 2002 to November 2002. Prior to joining the Bank, he served as Deputy General Manager of Technology Security Department and General Manager of Data Center of Industrial and Commercial Bank of China from November 1998 to April 2002. Mr. Hou received a Ph.D. degree in economics from Peking University in 2003.

**Mr. Yang Dongping**, aged 53, joined the Bank in May 1989, and serves as Chief Risk Management Officer of the Bank. Mr. Yang served as Deputy General Manager and General Manager of the Bank's Hong Kong Branch from September 2003 to September 2007. He also served in several positions in Wuhan Branch, including Deputy Manager of Securities Business Department, Deputy Director and Director of Credit Division, Manager of International Business Department, Vice President and President from May 1989 to September 2003. Mr. Yang received a master's degree in international finance from Wuhan University in 1998.

**Mr. Du Jianglong**, aged 39, joined the Bank in August 2009 and serves as Secretary of the Board of Directors of the Bank. From July 1997 to July 2009, Mr. Du worked for the Department of Trade Finance, Department of Government Bonds Finance and Department of Finance of MOF successively as Deputy Principal Officer, Principal Officer, Deputy Section Chief of Division I of the Department of Finance, Secretary of the Department of Finance (Section Head), Section Head of Division I of the Department of Finance and Deputy Director-General of the Department of Finance. In 1997, Mr. Du obtained a master's degree in Economics from the Research Institute for Fiscal Science of MOF in 2003, and a master's degree in economics from University of Manchester.

## 4 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

### 1. Changes in Directors

On 29 December 2009, pursuant to the twentieth meeting of the Fifth Session of the Board of Directors, Mr. Niu Ximing was appointed as Vice Chairman and Executive Director of the Board of Directors and President of the Bank. Mr Niu's appointment was approved by the CBRC. Mr. Li Jun is no longer Vice Chairman and Executive Director of the Board of Directors and President of the Bank.

### 2. Changes in Senior Management

On 19 August 2009, pursuant to the sixteenth meeting of the Fifth Session of the Board of Directors, Mr. Du Jianglong was appointed as Secretary of the Board of Directors (Secretary of the Bank). Mr. Du's appointment was approved by the CBRC. Mr. Zhang Jixiang is no longer Secretary of the Board of Directors (Secretary of the Bank).

## 5 HUMAN RESOURCE MANAGEMENT

### 1. Basic information of Employees

As at 31 December 2009, the Bank had a total of 79,122 employees, representing an increase of 1,388 employees or 1.79% compared with the beginning of the year.

Among these employees, 614 hold an advance professional and technical position, accounting for 0.78% of the work force; 16,680 hold an intermediate professional and technical position, accounting for 21.08% of the work force; 20,591 hold an primary professional and technical position, accounting for 26.02% of the work force.

The average age of the employees of the Bank is 34, with 37,177 employees under the age of 30 (representing 46.99% of total employees), 25,815 employees between the age of 30 and 40 (representing 32.63%); 11,908 employees between age of 40 and 50 (representing 15.05%), and 4,222 employees above 50 years old (representing 5.33%).

3,713 employees or 4.69% have postgraduate or higher academic qualifications; 40,944 or 51.75% have undergraduate qualifications; 26,215 or 33.13% have diplomas and 8,250 or 10.43% have lower qualifications.

## 2. Remuneration Policy

The Bank continued to promote its unique remuneration framework and management system, which "ensures that remuneration is determined with reference to job positions, responsibilities and capabilities of employees, and is reflective of market value in the labour market". The employees' basic salaries and allowances adequately reflect the value of their positions and responsibilities, which aligns remuneration with performance. The Bank's Enterprise Annuity Fund was formally launched this year with the aim of benefiting the employees and motivating their performance. The fund reinforced the Bank's adherence to its people-oriented values and ideals to accelerate the formation of a culture of cooperation between the Bank and its employees.

## 3. Performance Management

The Bank continually sought innovative measures for performance management to optimise its performance management model. The Bank improved its performance management approach by strengthening the communication of strategy, clarifying the rationale of performance indicators and enhancing the performance evaluation process at each level. The Bank had harmonised the performance evaluation process of domestic and overseas branches by promoting a Group-managed performance management model to streamline evaluation process. This included strengthened efforts to develop differentiated performance management in evaluating key job clusters.

# Report of the Board of Directors

The Board of Directors hereby present its report and the audited consolidated financial statements of the Group for the fiscal year ended 31 December 2009.

## 1. PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of banking and related financial services. Details of the Group's operating results by business segments for the year is set out in note 41 to the consolidated financial statements.

## 2. RESULTS AND PROFIT DISTRIBUTION

The operating results of the Group for the year are set out in the consolidated statement of comprehensive income on page 119.

The Bank made an interim dividend payment of RMB0.10 per share (before tax), in aggregate RMB4.899 billion, which was approved, in accordance with the Bank's Articles of Association, by the Sixteenth Meeting of the Fifth Board of Directors held on 19 August 2009.

The Board of Directors recommends payment of a final dividend of RMB0.10 per share (before tax), in aggregate RMB4.899 billion for the financial year ended 31 December 2009. The distribution proposal will be implemented upon approval by shareholders at the annual general meeting. The Bank is not aware of the details on any tax relief due to the holding of shares of the Bank.

The Bank paid a dividend of RMB0.20 per share (before tax) for the full year of 2008, in aggregate RMB9.799 billion.

## 3. RESERVES

Changes in the Group's reserves during the year are set out in the consolidated statement of changes in equity on page 122.

## 4. CHARITABLE DONATIONS

Charitable donations made by the Group during the year 2009 amounted to RMB135.03 million (2008: RMB215.19 million)

## 5. FIXED ASSETS

Changes in the Group's fixed assets are set out in note 22 to the consolidated financial statements.

## 6. SHARE CAPITAL

Details of the Bank's share capital are set out in note 31 to the consolidated financial statements.

During 2009 and for the period up to the latest practicable date prior to the printing of this annual report, the Bank has maintained the minimum prescribed public float as agreed with the Hong Kong Stock Exchange, which is 18.33% of the total issued share capital of the Bank, based on the information that is publicly available to the Bank and within the knowledge of the Directors.

## 7. FINANCIAL SUMMARY

A summary of the operating results, assets and liabilities of the Group for the last five financial years is set out on page 2.

## 8. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management of the Bank are set out on pages 66 to 77 of this Annual Report. The Bank has received an annual confirmation of independence from each of the Independent Non-executive Directors, and considers each of them to be independent.

## 9. BOARD COMMITTEES

Please refer to the Corporate Governance Report of this Annual Report.

## 10. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

None of the Directors or Supervisors of the Bank has entered into any service contract with the Bank or its subsidiaries which is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

## 11. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS OF THE BANK

Details of the emoluments of the Directors, Supervisors and five highest paid individuals of the Bank are set out in note 13 to the consolidated financial statements.

## 12. INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the business of the Bank, in which the Bank, its subsidiary or its holding company or a subsidiary of its holding company was a party and in which a Director or Supervisor is or was materially interested directly or indirectly, subsisted at the end of the year or any time during the year.

No contracts or proposed contracts with the Bank in which a Director or a Supervisor is or was materially interested in any way, directly or indirectly, subsisted at the end of the year or any time during the year.

No contracts of significance (as defined in Appendix 16 to the Listing Rules), in which a Director or a Supervisor is or was materially interested, directly or indirectly, subsisted at the end of the year or any time during the year.

## 13. INTERESTS OF DIRECTORS, SUPERVISORS IN COMPETING BUSINESS OF THE BANK

During the Reporting Period, none of the Directors or Supervisors of the Bank had any interest in any business that competes or is likely to compete, whether directly or indirectly, with the Bank's business.

## 14. INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| Name | Position | Shares held at beginning of the year | Change of shares held in the Reporting Period | Shares held at end of the year | Reason of change |
|---|---|---|---|---|---|
| Yang Dongping | Chief Risk Officer | 75,000 | 0 | 75,000 | — |

As at 31 December 2009, none of the Bank's Directors, Supervisors and Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register pursuant to section 352 of the SFO, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Hong Kong Listing Rules, to be notified to the Bank and the Hong Kong Stock Exchange.

## 15. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Interests of substantial shareholders of the Bank are set out in the section headed "Details of Changes in Share Capital and Shareholdings of Substantial Shareholders" in this Annual Report.

## 16. PURCHASE, SALE AND REDEMPTION OF SHARES OF THE BANK

During the Reporting Period, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any shares of the Bank.

## 17. PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

There are no mandatory provisions regarding pre-emptive rights in the Bank's Articles of Association and under the relevant laws and regulations of the People's Republic of China and currently the Bank does not have any arrangement with respect to share option either.

## 18. ISSUE OF SHARES AND DEBENTURES

To further optimise the equity-debt structure to support its business development of medium-to-long-term assets, the Bank issued subordinated bonds with an aggregate principal amount of RMB25 billion in the national interbank bond market on July 2009. The bonds consist of 15-year-term and 10-year-term bonds, of which, 15-year-term bonds having an aggregate principal amount of RMB13.5 billion and 10-year-term bonds having an aggregate principal amount of RMB11.5 billion. A real name system is adopted for the purpose of the book entry of the bonds. The bonds have a denomonation of RMB100 each and interest on such bonds are payable annually at a fixed rate.

Except for the issue of bond as mentioned above, the Bank and its subsidiaries have not issued, redeemed or granted any convertible securities, options, warrants or other rights during the Reporting Period. Details of the Bank's bond issuance process is set out in note 30 to the consolidated financial statements.

## 19. SHARE APPRECIATION RIGHTS

As part of the incentive scheme, the Bank has granted to members of senior management share appreciation rights. The issuance of share appreciation rights does not involve any issue of new shares or dilution of existing shareholders' equity. Details of the share appreciation rights are set out in note 13 to the consolidated financial statements.

As at the year ended 31 December 2009, the Bank has not granted to its Directors or Supervisors any rights to subscribe for the shares or debentures of the Bank or any of its subsidiaries, nor have any such rights to subscribe for the above shares or debentures been exercised by them. The Bank and its subsidiaries also have not entered into any agreement or arrangement to enable the Directors or Supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other corporate.

## 20. MAJOR CUSTOMERS

During the Reporting Period, the five largest customers of the Group accounted for less than 2% of the Group's total interest income and other operating income. None of the Bank's Directors, their associates or shareholders (which, to the knowledge of the Directors, owns more than 5% of the Bank's share capital), have any beneficial interest in the Bank's five largest customers combined.

## 21. CONTINUING CONNECTED TRANSACTIONS

As HSBC is a substantial shareholder of the Bank, HSBC and its subsidiaries and associates (the "HSBC Group") are connected persons of the Bank. The Bank and its subsidiaries have regularly engaged in various kinds of transactions in the normal course of banking business with the HSBC Group, for example, on sales and purchases of bonds, sales and purchases of money market instruments, foreign currency transactions, swap and option transaction, factoring and third party loans guaranteed by the HSBC Group.

To regulate the abovementioned on-going transactions, the Bank has renewed the term of the interbank transactions master agreement (the "Interbank Transactions Master Agreement") with HSBC on 16 June 2008 pursuant to which HSBC and the Bank agree to conduct continuing connected transactions (the "Continuing Connected Transactions") in accordance with applicable normal interbank practices and on normal commercial terms.

There is no fixed price or rate for the transactions under the Interbank Transactions Master Agreement. The parties agreed to apply the prevailing market prices or rates normally used by independent counterparties to the particular type of transactions concerned when transacting pursuant to the Interbank Transactions Master Agreement. The factoring transactions and guarantee transactions under the Interbank Transactions Master Agreement were exempt transactions under the Hong Kong Listing Rules. The factoring transactions are exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Hong Kong Listing Rules, whereas the guarantees provided by the HSBC Group to the Bank's branches for third-party loans are exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Hong Kong Listing Rules.

The sales and purchases of bonds, sales and purchases of money market instruments, foreign currency transactions and swap and option transactions entered into between the Group and the HSBC Group under the Interbank Transactions Master Agreement ("Non-exempt Continuing Connected Transactions") constitutes non-exempt continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules and are only subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules. The Hong Kong Stock Exchange granted a waiver to the Bank at the time of its H-share initial public offering, which was renewed on 16 June 2008.

For the financial year ended 31 December 2009, the Non-exempt Continuing Connected Transactions have not exceeded their respective annual caps:

(1) Each of the realised gains, realised losses and unrealised gains or losses (as the case may be) arising from the Non-exempt Continuing Connected Transactions have not exceeded RMB1.569 billion.

(2) The fair value of the derivative financial instruments entered into with the HSBC Group (whether recorded as assets or liabilities) under the Non-exempt Continuing Connected Transactions has not exceeded RMB10.415 billion.

Upon careful review of the Continuing Connected Transactions, each of the Independent Non-executive Director considers that the Continuing Connected Transactions were entered into by the Group:

(1) in the ordinary and usual course of business of the Bank;
(2) either on normal commercial terms or if there are not sufficient comparable transactions to judge whether they are normal commercial terms, in respect of the Bank, on terms no less favorable to the Bank than terms available to or from (as appropriate) independent third parties; and
(3) in accordance with the Interbank Transactions Master Agreement and on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

The auditors has issued a letter to the Board of Directors of the Bank confirming that:

(1) the Non-exempt Continuing Connected Transactions have received the approval of the Board of Directors of the Bank;
(2) the Non-exempt Continuing Connected Transactions were in accordance with the pricing policies of the Bank;
(3) the Non-exempt Continuing Connected Transactions have been entered into in accordance with the regulations governing those transactions; and
(4) the Non-exempt Continuing Connected Transactions have not exceeded their respective annual caps set out above.

In respect of the Continuing Connected Transactions, the Bank has complied with the disclosure requirements under the Hong Kong Listing Rules in force from time to time.

During the Reporting Period, the transactions between the Bank and HSBC are set out below:

(1) As at 31 December 2009, the aggregate balance of deposits placed in and loans to HSBC by the Bank amounted to RMB238 million, and the interest income arising from these deposits and loans were approximately RMB20 million for the year 2009.
(2) As at 31 December 2009, the aggregate balance of deposits placed in and loans to the Bank by HSBC amounted to RMB3.214 billion, and the interest expenses arising from these deposits and loans were approximately RMB9 million in the year 2009.

The transactions set out in items (1) and (2) above are exempt from complying with the reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(1) or Rule 14A.65(4) of the Hong Kong Listing Rules.

## 22. USE OF PROCEEDS FROM PUBLIC OFFERINGS

In June 2005, the Bank issued 6,733.970 million H shares (including the sale of 878.340 million over-allotment shares) to the overseas public, raising net proceeds of RMB17.290 billion.

In April 2007, the Bank issued 3.19035 billion A shares to the domestic public, raising net proceeds of RMB24.750 billion.

All the funds raised by the Bank were used to enhance the capital base of the Bank.

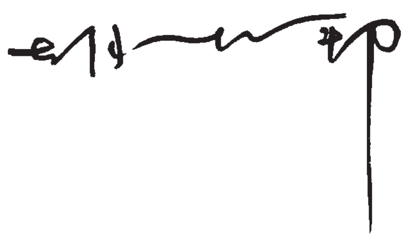
## 23. WORK PERFORMED BY THE AUDIT COMMITTEE AND PERSONNEL AND COMPENSATION COMMITTEE

The work performed by the Audit Committee and Personnel and Compensation Committee of the Bank are set out in the section headed "Board of Directors and Board Committees" in the Corporate Governance Report of this Annual Report.

## 24. AUDITORS

The Group's financial statements for the year 2009 prepared in accordance with China Accounting Standard were audited by Deloitte Touche Tohmatsu, while the Group's financial statements for the Year 2009 prepared in accordance with International Financial Reporting Standards were audited by PricewaterhouseCoopers.

By order of the Board
*Chairman*



**Hu Huai Bang**

30 March 2010, Shenzhen, PRC

# Report of the Board of Supervisors

In 2009, in accordance with the requirements of the Company Law, the Bank's Articles of Association etc., the Board of Supervisors monitored the Board of Directors' execution of resolutions approved by Shareholders' general meetings and other decisions made within the Board's authority. The Board of Supervisors also monitored senior management's implementation of resolutions approved at Shareholders' general meetings and the Board of Directors meetings as well as the business activities it carried out within its authority. At the same time, the Board of Supervisors also intensified its supervision on the performance of duties of the Board of Directors and senior management while monitoring closely the work such as the Bank's financials, internal controls and risk management to safeguard the interests of the Bank and its shareholders. The Board of Supervisors also increased its capability to carry out duties and strengthened its own improvement.

## 1. MAIN RESPONSIBILITIES OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors fulfilled its supervisory responsibilities through meetings of the Board of Supervisors, performance interviews, seminars, performance of duties assessments, and also by attending Shareholders' general meetings, Board of Directors meetings, special committees' meetings and senior management's meetings. It also heard work progress reports, carried out on-site inspection, reviewed financial information such as periodic reports as well as analysed business data and internal and external investigation reports. The Board of Supervisors has performed its duties in an effective and diligent manner, and has comprehensively carried out its supervisory duties.

(1) Enhanced supervision on the discharge of duty. After interviewing all Directors and senior management, the Board of Supervisors issued the "Performance Appraisal of Board of Directors and Special Committees 2009" to representatives of the regulatory authorities, supervisors and chief of divisions who attend the Board of Directors meetings and special committees meetings. The Board of Supervisors discussed with representatives of the regulatory authorities, reviewed "Annual Discharge of Duty Report" by individual Directors and senior management and prepared the "2009 Comments on the Performance of Duties by the Board of Directors and Senior Management" in connection with the daily supervisory work of the Board of Supervisors and circulated the same at the Board of Directors meeting. The Board also prepared "2009 Performance Appraisal" and notified individual Directors and senior management of their appraisals. In addition, the "Report Regarding the Performance of Mr. Zhang Jixiang as Secretary of the Board of Directors" was submitted to the CBRC and Shanghai Stock Exchange in accordance with the requirements of the "Guidance on Corporate Governance of and Relevant Supervisions on State-owned Commercial Banking Corporations" and the "Guidance on Corporate Governance of Joint Stock Commercial Banking Corporations".

(2) Fulfilled its duty of financial supervision. During the Reporting Period, the Board of Supervisors reviewed financial information such as periodical reports, profit distribution plan etc., heard the discussion of the Financial and Internal Control Committee of the Board of Supervisors and asked the auditors to report, for instance, key results of their audit, sample coverage of the audit and change of accounting policies. The Board of Supervisors also provided opinions on the improvement in respect of loan risk of government financing platform, risk control capabilities of overseas subsidiaries, abnormal changes at month-ends in deposits and loans and valuations methods on fixed assets.

(3) Strengthened the supervision of risk management and internal controls. Firstly, the Board of Supervisors analysed major non-compliance cases and considered the problems of the Group' mechanisms and systems. Furthermore, the Board of Supervisors provided suggestions for improvement to each branch which has serious non-compliance issues in credit issuance regarding its risk management in credit issuance after conducting on-site inspection. Secondly, the Board analysed weaknesses in the Bank's credit issuance management process and facilitate the improvement of the quality and efficiency of the credit issuance business. The Board of Supervisors inspected, on-site, five regional loan approving centers and a number of branches and provided comments for improvement on risk management in credit issuance. Thirdly, the Board looked for weak links in internal control, drawing from the experiences of the three-year restructuring in the audit mechanism. The Board inspected six regional audit departments on site and provided suggestions for reforming the structure of Bank's auditing processes.

(4) Issued the "Management Suggestions" and "Supervisory Proposals". The Board of Supervisors has issued seven suggestions and proposals to the Board of Directors and senior management during the Reporting Period, including the suggestions and proposals in relation to operational efficiency of non-loan funding, enhancement of interbank credit risk management to achieve unified management of domestic and foreign currencies and dispersed management of information available to external auditors.

(5) Supervised over resolution of existing problems. At the end of service of this session of the Board of Supervisors, the Board sorted out all questions about business management raised at the Board of Supervisors meetings, analysed issues listed in "Management Suggestions" and "Supervisory Proposals" sent to the Board of Directors and senior management, which were included in the contents of interviews with senior management and supervision plan of the Board of Supervisors for next year and followed up by the Board of Supervisors. The Board of Supervisors also attended feed-back meetings after on-site inspections by the CBRC, consulted with the regulators and resolved issues.

(6) Refined the Board of Supervisors. The Board has a comprehensive system for the approval of its own performance in discharging its duty. The Board sent the "2009 Discharge of Duty Questionnaire of the Board of Supervisors" to each Supervisor. The Board asked for opinions and suggestions relating to its performance from representatives of supervision agencies, Directors and seniors managers. Together with the "Performance of Discharge of Duty of Supervisor" submitted by individual supervisors, the Board prepared the "2009 Final Report of the Board of Supervisors on Review of Discharge of Duty Questionnaires", which is submitted to the CBRC. The Board strengthened the operation of its Board Committees. The Board Committees are responsible for providing the basis of decision making for the Board of Supervisors through the reviewing of work plans, periodic reports, summaries on interviews on discharge of duty and reports on the Board of Directors etc.. This is to ensure work quality and efficiency. The Board also helped to organise the supervisors to attend various training seminars on specific topics provided by the Shanghai Branch of the China Securities Regulatory Commission, the

Board and the Bank. It also carried out research and inspections and participated in internal on-site auditing, which helped to understand the Bank's business operations and to improve the Board's performance.

The Board of Directors and senior management highly values the supervisory work performed by the Board of Supervisors. They actively report progress to the Board. The Board of Directors, the Board of Supervisors and senior management worked in harmony and supervised each other, which resulted in further enhancement to the corporate governance of the Bank.

## 2. MEETINGS OF THE BOARD OF SUPERVISORS

The Board of Supervisors convened four meetings on 16 March 2009 and 18 March 2009, on 28 April 2009, on 19 August 2009 and on 28 October 2009. The Board of Supervisors was briefed by senior management on market risk management, risk management for the wealth management business and comprehensive risk management. It also presented the contents in both the "Opinions on Improving Credit granting Risk Management of the Bank" and the "Final Report on the Supervision on Discharge of Duties". The Meetings of the Board of Supervisors had approved 13 resolutions, including the "2008 Report of the Board of Supervisors", which was a report for the Shareholders' general meeting.

(1) In terms of supervision on the discharge of duty, the Board of Supervisors approved two resolutions: "Opinion of the Board of Supervisors on the Discharge of Duty of the Board of Directors and Senior Management in 2008" and "2008 Final Report of the Board of Supervisors on the Review of Discharge of Duty Questionnaires".

(2) In terms of reviewing revenue and expenditure, the Board of Supervisors have approved the seven following resolutions: "Annual Report for 2008", "Financial Accounts Report for 2008" "Profit Allocation Budget for 2008", "First Quarter Announcement for 2009", "Interim Report for 2009", "Semi-annual Profit Allocation Budget for 2009" and "Third Quarter Announcement for 2009".

In addition, the Board of Supervisors also approved the "Work Plan of the Board of Supervisors for 2009", and, separately, the "Internal Control Self-Appraisal Report for 2008" and the "Corporate Social Responsibility Report for 2008" according to regulatory requirements.

The Discharge of Duty Committee of the Board of Supervisors had convened one meeting and discussed the "Summary Report of the Board of Supervisors on Discharge of Duty", outlines of interview with Directors, outlines of interviews with senior managers, appraisal forms on the performance of the Board of Directors Meetings and the Board Committees Meetings.

The Nomination Committee of the Board of Supervisors had convened one meeting and approved the "Work Plan of the Nomination Committee of the Board of Supervisors for 2009".

The Financial and Internal Control Committee of the Board of Supervisors had convened four meetings and discussed the "Work Plan of the Financial and Internal Control Committee of the Board of Supervisors for 2009" and periodical reports.

Attendance at Board of Supervisors Meetings by Board of Supervisors members

| Members of the Board of Supervisors | Attendance in person | Attendance Percentage (%) |
|---|---|---|
| Hua Qingshan | 3/4 | 75 |
| Zheng Li | 4/4 | 100 |
| Jiang Zuqi | 4/4 | 100 |
| Guan Zhengyi | 3/4 | 75 |
| Yang Fajia | 3/4 | 75 |
| Wang Lisheng | 4/4 | 100 |
| Li Jin | 3/4 | 75 |
| Yan Hong | 3/4 | 75 |
| Liu Sha | 4/4 | 100 |
| Chen Qing | 4/4 | 100 |
| Shuai Shi | 4/4 | 100 |
| **Average attendance percentage** | | **88.64** |

## 3. INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS

### (1) Truthfulness of the financial statements

The financial statements present, truly and fairly, the financial position and operating results of the Bank.

### (2) Use of proceeds

During the Reporting Period, the Bank issued RMB25 billion RMB-denominated subordinated bonds in China's interbank bond market. The proceeds raised were used to enhance the Bank's asset liability structure and raise the Bank's capital adequacy level, which is consistent with the Bank's commitment.

### (3) Acquisition and disposal of assets

During the Reporting Period, pursuant to the approval from the Board of Directors, the Bank made a contribution of RMB76.50 million to Anji Bocom Rural Bank incorporated in Anji County, Zhejiang Province as a promoter, representing 51% of Dayi Bocom Xingmin Rural Bank's registered capital. The Board of Supervisors is not aware of any acquisition or disposal of assets by the Bank which may damage the interest of the shareholders or which may cause a loss to the Bank's assets.

### (4) Related party transactions

During the Reporting Period, the Board of Supervisors is not aware of the entering into of any connected transactions by the Bank that would damage the interest of the Bank or its shareholders.

### (5) The Auditors' report

PricewaterhouseCoopers and Deloitte Touche Tohmatsu CPA have issued the unqualified audit report on the financial position and operating results of the Bank in 2009 and the Board of Supervisors has no objection to the report.

### (6) Execution of resolutions approved at the Shareholders' General Meeting

The Board of Supervisors has no objection to the various resolutions proposed to the Shareholders' general meeting and considered the Board of Directors to have effectively executed the resolutions approved at the Shareholders' general meetings during the Reporting Period.

### (7) Implementation of information disclosure

The Bank welcomes the supervision by the society. During the Reporting Period, the Bank disclosed 4 periodic results in Shanghai and in Hong Kong in compliance with applicable laws and made 24 and 27 announcements regarding price sensitive information such as corporate governance and significant investment plans in compliance with the Listing Rules of the Shanghai Stock Exchange and the Hong Kong Listing Rules, respectively. The Board of Supervisors has not identified any false records, misleading statements or material omissions.

### (8) Internal control system

During the Reporting Period, the Bank accorded great importance to the development of its internal control policies and strived to enhance and improve its internal control. The Board of Supervisors has no objection to the "2009 Internal Control Self-Appraisal Report" of the Bank.

### (9) Fulfilling of corporate social responsibility

The Bank has discharged it corporate social responsibility during the Reporting Period by supporting major state projects, continuing credit support to "agriculture, farmers and the countryside" projects, innovating financial services, supporting development of small-to-medium-sized businesses, focusing on its "Green Credit" Project and providing services to the World Expo. The Board of Supervisors has no objection to the "2009 Corporate Social Responsibility Report".

### (10) Compliance with applicable laws

During the Reporting Period, the Board of Directors and senior management were diligent, hardworking and prudent and instances of any breach of laws or regulations which would damage the interests of the Bank and the shareholders have not been identified.

The Bank has diligently implemented the macroeconomic control policy of the Central Government in its business management, actively implemented the strategy of becoming an “internationalised and integrated first-class bank focused on wealth management”, accelerated its technology and product innovation, accelerated the construction process of its branch offices, enhanced its foundation for risk management and built a full suite of service brands. As such, all types of business operations await further progress. There has been steady improvement in business management that led to good results. The Bank will keep its focus on stable development and improving its management. It will further enhance its overall risk management ability, improve the level of standardisation of its credit risk management process, refine its branch offices and subsidiaries management. The Bank will improve its performance review management. This is for enhancing all branch offices’ ability to carry out their duties. The Bank will remain steadfast in its development to become a “first-class public bank group focused on wealth management services by means of international expansion and by providing comprehensive services”.

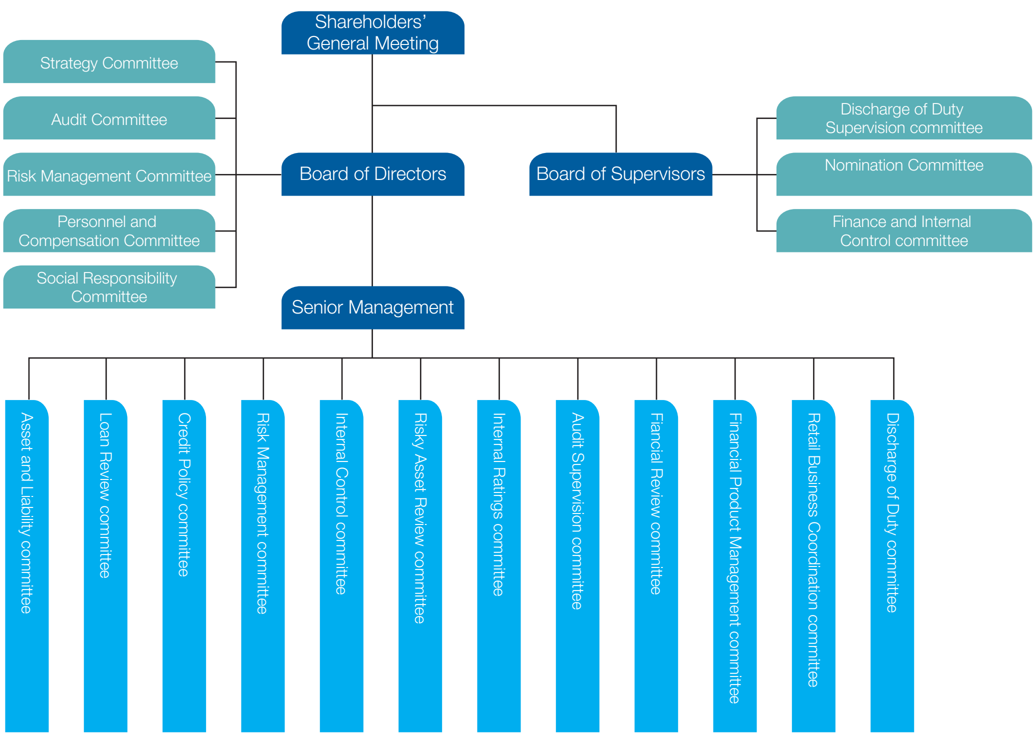
# Corporate Governance Report

The Bank has a deep understanding of the core value and spirit of good corporate governance. It identified the importance of a corporate governance framework that is based on integrity, equity, transparency and responsibility, to the stability and effective operation of a commercial bank. The Bank has diligently devoted its efforts towards developing a corporate governance system that both conforms to international standards and applicable to the Bank's unique circumstances. To protect the legal interest of shareholders and other stakeholders, the Bank strictly complied with the relevant laws and regulations such as the Company Law as well as rules and guidelines promulgated by domestic and overseas regulatory authorities during the Reporting Period. The Bank has also continuously strengthened the development of its corporate governance policies and optimised the operational mechanism of the "Shareholders' General Meeting, Board of Directors, Board of Supervisors and Senior Management". In addition, the Bank strengthened its risk management and internal controls and proactively responded to the global financial crisis. Further, the Bank strengthened its customer relationship management and continued to improve information transparency. The Bank has also actively fulfilled its corporate social responsibilities and further promoted the development of its corporate culture and brand name.

The Directors of the Bank confirm that the Bank has fully complied with the principles and code provisions stipulated in Appendix 14 to the Hong Kong Listing Rules — the Code of Corporate Governance Practices for the year ended 31 December 2009, and essentially complied with most of the recommended best practices of the Code of Corporate Governance Practices.

## 1. CORPORATE GOVERNANCE STRUCTURE

The Bank has currently established an effectively balanced and independently operated corporate governance structure that clearly defines the rights and obligations of the shareholders' general meeting, Board of Directors, Board of Supervisors and senior management (refer to chart below).



## 2. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETING

As at 31 December 2009, the total issued share capital of the Bank was 48.994 billion shares, consisting of 25.930 billion A shares and 23.064 billion H shares. The top four shareholders of the Bank are the Ministry of Finance, HSBC, SSF and Capital Airports Holding (Group) Company, which held an aggregate of 58.98% of the Bank's total issued shares, of which, the largest shareholder, the Ministry of Finance, held 26.48% and the second largest shareholder, HSBC, held 19.15%. The Bank is independent from all shareholders in terms of its business, employees, assets, institutions and finance, and possesses a completely independent business and autonomous operations.

The Shareholders' general meeting is the highest authority of the Bank. During the Reporting Period, the Bank held one Shareholders' General Meeting, being the 2008 annual general meeting held in Shanghai on 8 May 2009. Each individual matter was proposed as a separate resolution at the annual general meeting and was resolved by vote. The poll results announcement of the 2008 annual general meeting had been published on the official websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank, respectively, and had also been published on the China Securities Journal, the Shanghai Securities News and the Securities Times. All of the resolutions passed at the 2008 annual general meeting had been fully executed.

## 3. BOARD OF DIRECTORS AND BOARD COMMITTEES

### 3.1 Responsibilities of the Board of Directors

The Board of Directors is the strategic decision making body of the Bank and is responsible to the shareholders' general meeting. Its main responsibilities includes, but not limited to, convening shareholders' general meetings and presenting work reports at such meetings, executing the resolutions passed at the Shareholders' General Meeting, deciding on the Bank's operating plans and investment proposals, reviewing the work report of the President and monitoring the President's work.

All Directors of the Bank work diligently, to continuously improve corporate governance, to strengthen the structure of the Board of the Directors itself and improve the level of standardisation and operations of the management. During the Reporting Period, the Board, first, based on the experience acquired from historical development, and having learnt from the domestic and foreign banking industry, established the strategy of becoming an "International first-class universal banking group featured in wealth management" and actively implemented it. Second, the Board developed, through its research, the "Outline on Capital Planning 2009–2013" and successfully executed its subordinated capital replenishment plan. Third, it amended the Articles of Association of the Bank to improve corporate governance. Four, it comprehensively enhanced its risk management and amended the "Total Risk Management Plan 2009–2011", and at the same time, accelerated the compliance process with the New Basel Capital Accord. Five, it actively promoted investor relationship management and information disclosure and was the only domestic bank to issue interim dividends for the second consecutive year.

### 3.2 Composition of the Board of Directors

The Board of Directors currently comprises 18 members, including four Executive Directors, Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Peng Chun and Mr. Qian Wenhui; eight Non-executive Directors, Mr. Zhang Jixiang, Mr. Hu Huating, Mr. Qian Hongyi, Mr. Wong Tung Shun, Peter, Ms. Laura M. Cha, Mr. Ji Guoqiang, Mr. Lei Jun and Mr. Yang Fenglin; and six Independent Non-executive Directors, Mr. Xie Qingjian, Mr. Ian Ramsay Wilson, Mr. Thomas Joseph Manning, Mr. Chen Qingtai, Mr. Li Ka-cheung, Eric and Mr. Gu Mingchao. The Bank's Independent Non-executive Directors accounted for one-third of the total number of Directors of the Board, which met the relevant regulatory requirements. The term of the Directors will be terminated at the date of the annual general meeting of the year 2009 to be held in 2010. Please refer to the "Directors, Supervisors, Senior Management and Staff" section in this Annual Report for the biographical details of the Directors. Their individual profiles are also available on the Bank's website.

Chairman of the Board of Directors is Mr. Hu Huaibang. On 29 December 2009, Mr. Li Jun resigned from the posts of Executive Director, Vice-Chairman of the Board of Directors and President of the Bank due to reassignment and Mr. Niu Ximing was appointed by the Board of Directors as Executive Director, Vice-Chairman of the Board of Directors and President of the Bank. The roles of the Chairman and the President are mutually independent and they each have their own explicit areas of responsibility.

### 3.3 Meetings of the Board of Directors

The Bank has formulated the "Procedural Rules of the Board of Directors' Meeting" to clearly outline matters in respect of the requirements for convening and giving notice with respect of a meeting, the procedures, agenda and minutes of the meeting and so on. During the Reporting Period, the Board of Directors of the Bank held nine meetings (including five physical meetings and four held by teleconference) and considered and approved 44 resolutions. Details are as follows:

The Twelfth Meeting of the Fifth Board of Directors was conducted by way of meeting in circulation from 20 January to 6 February 2009; the Thirteenth Meeting of the Fifth Board of Directors was convened in Shenzhen from 17 March to 18 March 2009. The Fourteenth Meeting of the Fifth Board of Directors was convened in Shanghai on 28 April 2009 and the Fifteenth Meeting of the Fifth Board of Directors was conducted by way of meeting in circulation from 23 to 30 June 2009. The Sixteenth Meeting of the Fifth Board of Directors was convened in Shanghai on 19 August 2009 and the Seventeenth Meeting of the Fifth Board of Directors was conducted by way of a meeting in circulation from 7 September to 15 September 2009. The Eighteenth Meeting of the Fifth Board of Directors was convened in Shanghai on 28 October 2009 and the Nineteenth Meeting of the Fifth Board of Directors was conducted by way of a meeting in circulation from 10 December to 21 December 2009. The Twentieth Meeting of the Fifth Board of Directors was convened in Shanghai on 29 December 2009.

All the aforementioned meetings were held in compliance with the Bank's Articles of Association, the "Procedural Rules of the Board of Directors' Meeting" and the code provisions of the Hong Kong Stock Exchange's Code of Corporate Governance Practices.

The summary of attendance at the meetings of the Board of Directors by the members of the Board of Directors during the Reporting Period is as follows:

| Director | Attendance at Meetings | Attendance Percentage (%) |
|---|---|---|
| **Executive Director** | | |
| Hu Huaibang | 9/9 | 100 |
| Niu Ximing | — | — |
| Li Jun | 8/8 | 100 |
| Peng Chun | 9/9 | 100 |
| Qian Wenhui | 9/9 | 100 |
| **Non-Executive Director** | | |
| Zhang Jixiang | 9/9 | 100 |
| Hu Huating | 9/9 | 100 |
| Qian Hongyi | 9/9 | 100 |
| Peter Wong Tung Shun | 9/9 | 100 |
| Laura M. Cha | 9/9 | 100 |
| Ji Guoqiang | 8/8 | 100 |
| Lei Jun | 9/9 | 100 |
| Yang Fenglin | 9/9 | 100 |
| **Independent Non-Executive Director** | | |
| Xie Qingjian | 9/9 | 100 |
| Ian Ramsay Wilson | 9/9 | 100 |
| Thomas Joseph Manning | 9/9 | 100 |
| Chen Qingtai | 9/9 | 100 |
| Li Ka-cheung Eric | 9/9 | 100 |
| Gu Mingchao | 9/9 | 100 |
| **Average attendance percentage** | | **100** |

Note: On 29 December 2009, Mr. Li Jun resigned as Executive Director, Vice Chairman of the Board of Directors and President of the Bank with immediate effect from the time the Board of Directors appointed his successor. On 29 December 2009, the Twentieth Meeting of the Fifth Board of Directors appointed Mr. Niu Ximing as Executive Director and Vice Chairman of the Board of Directors. The appointment will be effective till the next meeting of the Annual General Meeting of Shareholders.

### 3.4 Board Committees

The Bank's Board of Directors has set up five Board Committees, being the Strategy Committee, the Audit Committee, the Risk Management Committee, Personnel and Compensation Committee and the Social Responsibility Committee.

Performance of duties by the respective Board Committees are as follows:

1. Strategy Committee. The Strategy Committee is primarily responsible for researching and analysing business objectives, formulating medium and long term development strategies, significant equity investment proposals and capital management of the Bank. The Strategy Committee comprises five members, including Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Peng Chun, Mr. Qian Wenhui and Mr. Wong Tung Shun, Peter. Mr. Hu Huaibang serves as the Chairman of the Strategy Committee.

   During the Reporting Period, the Strategy Committee held six meetings where it considered matters, according to the Regulations on the Work of the Strategy Committee of the Board of Directors, such as the issue of bonds, capital planning outline, and reported its recommendations to the Board of Directors. The summary of attendance at the meetings of the Strategy Committee is as follows:

| Strategy Committee Members | Attendance | Attendance Percentage (%) |
|---|---|---|
| Hu Huaibang (Committee Chairman) | 6/6 | 100 |
| Niu Ximing | — | — |
| Li Jun | 6/6 | 100 |
| Peng Chun | 6/6 | 100 |
| Qian Wenhui | 6/6 | 100 |
| Peter Wong Tung Shun | 6/6 | 100 |
| **Average attendance percentage:** | | **100** |

   Note: On 29 December 2009, Mr. Li Jun resigned as member of the Strategy Committee. On 29 December 2009, the Twentieth Meeting of the Fifth Board of Directors appointed Mr. Niu Ximing as member of the Strategy Committee.

2. Audit Committee. The Audit Committee is mainly responsible for proposing the appointment, change or removal of the Bank's auditors, supervising the Bank's internal audit system and its implementation, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and related disclosures, overseeing the Bank's accounting policies, financial conditions and financial reporting procedures, and monitoring the Bank's compliance management. The Audit Committee comprises five members, including Mr. Li Ka-cheung, Eric, Mr. Qian Hongyi, Mr. Yang Fenglin, Mr. Gu Mingchao and Mr. Chen Qingtai. Mr. Eric Li Ka-chueng, Eric, an Independent Non-executive Director, serves as the Chairman of the Audit Committee and the number of Independent Non-executive Directors exceeds half of the total number of members of the Audit Committee.

During the Reporting Period, the Audit Committee held five meetings where it considered, according to the Regulations on the Work of the Audit Committee of the Board of Directors, drafts of periodic reports and results announcements, financial statements, profit distribution plan and internal control report, as well as the appointment of auditors and reported its recommendations to the Board of Directors. The summary of attendance at the meetings of the Audit Committee is as follows:

| Audit Committee Members | Attendance | Attendance Percentage (%) |
|---|---|---|
| Li Ka-cheung Eric (Committee Chairman) | 5/5 | 100 |
| Qian Hongyi | 5/5 | 100 |
| Yang Fenglin | 5/5 | 100 |
| Chen Qingtai | 5/5 | 100 |
| Gu Mingchao | 5/5 | 100 |
| **Average attendance percentage:** | | **100** |

3. Risk Management Committee. The Risk Management Committee is mainly responsible for supervising and controlling the Bank's credit, market and operational risks, performing periodic evaluation of the Bank's risks exposure, management condition and risk tolerance capability and level, reviewing related-party transactions, significant fixed asset investments, asset disposals, asset pledges and external guarantees. It also submits recommendations to the Board of Directors in relation to the enhancement of the Bank's risk management and internal controls. In addition, it is responsible for managing related-party transactions, reviewing significant related-party transactions and controlling related risks. The Risk Management Committee comprises four members, including Mr. Xie Qingjian, Mr. Ji Guoqiang, Mr. Lei Jun and Mr. Ian Ramsay Wilson. Mr. Xie Qingjian, an Independent Non-executive Director, serves as the Chairman of the Risk Management Committee.

   During the Reporting Period, the Risk Management Committee held four meetings where, according to the "Regulations on the Work of the Risk Management Committee of the Board of Directors", it inspected matters such as the quarterly risk evaluation reports and reported its recommendations to the Board of Directors. The summary of attendance at the meetings of the Risk Management Committee is as follows:

| Risk Management Committee Members | Attendance | Attendance Percentage (%) |
|---|---|---|
| Xie Qingjian (Committee Chairman) | 4/4 | 100 |
| Ji Guoqiang | 4/4 | 100 |
| Lei Jun | 4/4 | 100 |
| Ian Ramsay Wilson | 4/4 | 100 |
| **Average attendance percentage:** | | **100** |

4. Personnel and Compensation Committee. The Personnel and Compensation Committee is primarily responsible for establishing the evaluation criteria for the Board of Directors and senior management and conducting the evaluation, formulating the remuneration plan for Directors, Supervisors and senior management as well as monitoring its implementation, and formulating the nomination criteria and procedures for the nomination of Directors and senior management and performing initial assessment. The Personnel and Compensation Committee comprises four members, including Mr. Thomas Joseph Manning, Mr. Zhang Jixiang, Ms. Laura M. Cha and Mr. Chen Qingtai. Mr. Thomas Joseph Manning, an Independent Non-executive Director, serves as the Chairman of the Personnel and Compensation Committee.

   During the Reporting Period, the Personnel and Compensation Committee held four meetings where, according to the Regulations on the Work of the Personnel and Compensation Committee of the Board of Directors, it considered matters such as nomination of Directors, appointment of senior management and the annual compensation plans for Directors and senior management and reported its recommendations to the Board of Directors. The summary of attendance at the meetings of the Personnel and Compensation Committee is as follows:

| Personnel and Remuneration Committee Members | Attendance | Attendance Percentage (%) |
|---|---|---|
| Thomas Joseph Manning (Committee Chairman) | 4/4 | 100 |
| Zhang Jixiang | 4/4 | 100 |
| Laura M. Cha | 4/4 | 100 |
| Chen Qingtai | 4/4 | 100 |
| **Average attendance percentage:** | | **100** |

5. Social Responsibility Committee. The Social Responsibility Committee is primarily responsible for researching and formulating the Bank's social responsibility strategy and policy, monitoring, inspecting and evaluating the Bank's progress in fulfilling its social responsibility, and approving external donations based on the authorisation granted by the Board of Directors. The Social Responsibility Committee comprises five members, including Mr. Niu Ximing, Mr. Qian Wenhui, Mr. Hu Huating, Mr. Ji Guoqiang and Mr. Gu Mingchao. Mr. Niu Ximing serves as the Chairman of the Social Responsibility Committee.

   During the Reporting Period, the Social Responsibility Committee held one meetings where, according to the Regulations on the Work of the Social Responsibility Committee of the

Board of Directors, it considered the Corporate Social Responsibility Report, and reported its recommendations to the Board of Directors. The summary of attendance at the meetings of the Social Responsibility Committee is as follows:

| Social Responsibility Committee Members | Attendance | Attendance Percentage (%) |
|---|---|---|
| Niu Ximing (Committee Chairman) | — | — |
| Li Jun | 1/1 | 100 |
| Qian Wenhui | 1/1 | 100 |
| Hu Huating | 1/1 | 100 |
| Ji Guoqiang | 1/1 | 100 |
| Gu Mingchao | 1/1 | 100 |
| **Average attendance percentage:** | | **100** |

Note: On 29 December 2009, Mr. Li Jun resigned his post as Chairman of the Social Responsibility Committee. On 29 December 2009, the Twentieth Meeting of the Fifth Board of Directors appointed Mr. Niu Ximing as Chairman of the Social Responsibility Committee.

### 3.5 Independent Non-Executive Directors

The Bank has established the "Regulation on the Work of Independent Non-Executive Directors", to regulate the eligibility, the appointment and removal procedures, scope of work and legal responsibilities of the Independent Non-Executive Directors of the Bank. In May 2009, the 2008 Annual General Meeting of Shareholders amended the "Regulation on the Work of Independent Non-executive Directors", further specifying the term of service and conditions on appointment and removal of Independent Non-Executive Directors.

There are currently six Independent Non-executive Directors of the Bank, who have the qualifications to meet the requirements set by domestic supervisory regulations, as well as those under Rules 3.10(1) and 3.10(2) of the Hong Kong Listing Rules. Their terms of service will expire on the date when the Bank's 2009 shareholders' annual general meeting will be convened in 2010. The independence of the Bank's Independent Non-executive Directors is effectively assured as they do not have any business or financial interests in the Bank or its subsidiaries and they have not assumed any managerial posts in the Bank. In addition, the Bank has received the annual confirmation of independence from all Independent Non-executive Directors and considered each of the Independent Non-executive Directors to be independent.

During the Reporting Period, the attendance rate of the meetings of the Board of Directors of the Bank by Independent Non-executive Directors was 100% and physical attendance rate was 88.9%. Three Board Committees, being the Audit Committee, the Risk Management Committee and the Personnel and Compensation Committee are all chaired by Independent Non-executive Director. The

Independent Non-executive Directors account for more than half of the total number of committee members. The Independent Non-executive Directors maintain communication with the Bank's senior management through various means such as on-site research and seminars. The Bank's Independent Non-executive Directors also actively expressed their views, thereby promoting a scientific way of decision-making for the Board of Directors. The Independent Non-executive Directors have given their independent opinion on significant matters which arose during the Reporting Period, including, but not limited to, connected transactions, nomination of Directors and the appointment of senior management and have no objections to the resolutions of the Board of Directors or any other resolutions.

### 3.6 Responsibility of the Board of Directors for the Financial Statements

The Directors are responsible for monitoring the preparation of the financial statements for each accounting period to ensure that the financial statements represent a true and fair view of the Group's business conditions, operating results and cash flow in the relevant period. During the preparation of the financial statements for the year ended 31 December 2009, the Directors have selected and applied appropriate accounting policies and have made reasonable and prudent accounting estimates. The Directors have confirmed their responsibility for the preparation of the financial statements, while the auditors' declaration of their reporting responsibility is contained on page 117 of this Annual Report.

### 3.7 Specific notification and independent opinion by the Independent Non-Executive Directors on external guarantees by the Bank

The Bank's Independent Non-executive Directors consider that the Bank's external guarantees business is one of the regular businesses that is approved by China's various banking regulatory authorities and the Bank has formulated detailed procedures for its external guarantee business, which covers areas such as risk prevention and operational assessment.

As at 31 December 2009, all the transactions between the Bank and its related parties are regular operational treasury business.

## 5. BOARD OF SUPERVISORS AND BOARD COMMITTEES

The Board of Supervisors is the supervisory body of the Bank and is responsible to the Shareholders' General Meeting. Its primary responsibilities are examining the Bank's financial status, monitoring the performance of the Bank's Directors and senior management in relation to the execution of their duties, proposing the removal of Directors and senior management who have contravened any laws, administrative regulations, the Bank's Articles of Association and the resolutions passed at the Shareholders' General Meeting. When the Bank's Directors and senior management act against the interest of the Bank, the Board of Supervisors will demand the relevant staff to make good any damage caused to the Bank. The Board of Supervisors also reviews financial information such as financial statements and profit distribution plan to be submitted by the Board of Directors at the Shareholders' General Meeting, and in the event of doubt, the Board of Supervisors can, on behalf of the Bank, appoint certified public accountants or professional auditors to review and audit the financial statements, as well as to call for an Extraordinary General Meeting. In the event that the Board of Directors fails to fulfill their responsibilities to call for or chair a Shareholders' General Meeting as required under the Company Law, the Board of Supervisors can convene and chair such meeting. The Board of Supervisors can also raise matters in the Annual General Meeting. If it discovers that the operations of the Bank is unusual, it can conduct investigations.

The Board of Supervisors currently has 11 members consisting of one Chairman (Mr. Hua Qingshan), two External Supervisors, five Shareholder Representative Supervisors, and three Employee Representative Supervisors. The Discharge of Duty Committee of the Board of Supervisors has four members, with the Chairman as Chief Commissioner and two External Supervisors and one Employee Representative Supervisor as committee members. The Nomination Committee of the Board of Supervisors has five members, with one External Supervisor as Chief Commissioner and one External Supervisor, one Shareholder Representative Supervisor and two Employee Representative Supervisor as committee members. The Finance and Internal Control Committee of the Board of Supervisors has seven members, with one External Supervisor as Chief Commissioner and one External Supervisor, four Shareholder Representative Supervisors and one Employee Representative Supervisor as committee members.

The attendance of Supervisors in Board of Supervisors meetings is 88.64%. The Supervisors provided good opinions and suggestions on the reviewing of financial reports, enhancing risk management and internal control, and improving the Headquarters' management of branch offices. They attended the credit risk and market risk management seminars organised by the Board of Supervisors and continued to enhance their ability to carry out their duties; and strictly complied with external supervisory regulations. Two External Supervisors are experienced professionals in auditing and economic and financial management. Their attendance at meetings is 100%. They are responsible for minority shareholders' interests and they inspected some of the branch offices to understand the situation. They attended the Board of Directors and Board Committee meetings, interviewed directors and senior managers, checked on the discharge of duty of Board of Directors, senior management and their members.

Please refer to Report of the Board of Supervisors of the Annual Report for the details of work carried out by the Board of Supervisors and its Board Committees.

## 6. SENIOR MANAGEMENT

The Bank's senior management consists of the President, the Vice-President, Chief Financial Officer, Chief Information Officer and Chief Risk Officer. The Bank adheres to a system whereby the President, as the ultimate responsible officer, follows the guidance of the Board of Directors. The President is responsible to the Board of Directors while all other functional departments, branch offices and senior management are responsible to the President. The President has the authority to manage the Bank's business in compliance with the law, regulations, the Bank's Articles of Association and authorisation from the Board of Directors.

## 7. INTERNAL CONTROL

The Board of Directors and management is responsible for the internal control system and its execution. The Bank established corresponding internal control systems, execution mechanisms and review and correction mechanisms, considering five factors, such as the internal environment, risk review, control measures, information and communication and internal supervision.

During the Reporting Period, the Bank had paid close attention to developments of economic climate. It actively designed and adopted various control measures for risk management, credit management, process reengineering and anti-fraud and continued to enhance the internal control system of the Bank.

### 7.1 Continued implementation of the New Basel Capital Accord

During the Reporting Period, compliance with the New Basel Capital Accord had several key developments. Based on the implementation of the New Basel Capital Accord, the Bank also upgraded and improved its various risk management systems.

On credit risk management, the Bank's internal credit rating system was integrated into its daily credit management procedures. The results of internal ratings were widely applied in credit approval, credit policy, post-lending monitoring, loan pricing and risk reporting. The ratings IT system was integrated into the Credit Management Information System ("CMIS"); a retail credit internal ratings system was deployed Bank-wide and the results were used for credit approval and risk control; a retail loan information auto-collection system was produced; the results generated by the credit card internal ratings system was applied in credit approval and post-lending monitoring; a consolidated collateral management system went online which provided a stable platform for corporate, retail and small business credit management with managerial functions such as collateral process management, documents management, integrated assets management and periodic collaterals revaluation.

On market risk management, the Bank comprehensively upgraded its basic risk management framework based on the new characteristics of risk management framework and market risk formulated in 2008. The Bank amended the rules on limits management, financial instruments risk management, interest rate risk management, exchange rate risk management etc., and created manuals and rules on risk management for the wealth management business and operational risk management. Phase one of the market risk management information system went online, covering the trades carried out in all domestic branches.

On operational risk management, the Bank is designing new operational risk management tools and procedures which will help to consolidate operational processes across all businesses and identify their related risks. The Bank completed the consolidation and identification of risk and control areas for 472 sub-processes in 93 processes across 7 business functions. The Bank also implemented risk control self-appraisal in some branch offices.

On regulating the calculation of capital, the Bank participated in the second impact-quantification organised by the CBRC. The system for the calculation of the capital adequacy ratio was already online and is currently on a trial run.

On establishing the second pillar of the New Basel Capital Accord, the internal capital adequacy ratio review project had progressed as scheduled. A management system targeting liquidity risk and bank book interest rate risk was established. The capital and liability management system went online.

### 7.2 Enhancing credit management

The Bank actively monitored credit risk in loans to investment and financing platforms and loans to industries with excess capacity. In early 2009, the Bank promulgated a control policy to control the volume, orientation and pace on loan granting relating to two types of loans, as well as reinforcement and reduction measures. In the middle of the year, in order to address the increasing risk in the rising of loans on a national financing platform and the rising of municipal debts, the Bank tightened its credit limits and supported projects which generated its own cash flows, based on the principles of "strict granting, emphasis on cash flows and controlling total volume".

The Bank continued to develop its loan business management tools. The Bank constructed a risk-resistant and development-enhancing toolbox system which consisted of 12 credit toolboxes in three categories of industry, being client support and product service and risk management. This enabled the identification of various credit management measures customised to changing economic cycles. The Bank developed and deployed a post-lending monitoring system to trace loan disbursements. The Bank also adjusted the quality review indices of its credit granting business, implemented ratings on post-lending management and improved the level of loan business management of subsidiaries.

Following the post-lending monitoring, the Bank focused on key areas to further the carrying-out of specific risk reviews, to create a dual-monitoring system of routine risk filtering and specific risk checks. In this year, the Bank organised risk reviews on industry restructuring, government financing platform loans, loans to the real estate industry, new loans, home mortgage loans, personal loans usage, credit card fraud and cashing related risks.

### 7.3 Improvements in business operation processes

The Bank continued to explore new ways to run its branches and businesses. Two provincial branches achieved significant progress in its business reforms. Reforms of provincial branches in their operations models had started, with back office operation of all branches to be incorporated in one provincial branch. The provincial branch will also carry out bookkeeping function for all subsidiaries to streamline the sales function of the back office. The Bank accelerated the deployment of our electronic network through enhanced functionality, enhanced the contract signing procedures and channels of the e-banking business and developed personal and corporate internet banking. Mobile banking was further developed and electronic channels became a more critical part of its business.

The Bank continued to consolidate its front office operations. The Bank developed a more comprehensive teller system through the integration of seven front office systems. This simplified input factors and facilitated operation of the teller. Furthermore, the stamp control system was integrated into one platform. The Bank developed an accounting business stamping management system, in order to control the storage, collection and return of accounting business stamps. Cash management flows were restructured to use a new “box-swapping” system which simplified the procedures involved when the teller exchanges cash boxes, and saved time for the accounting process of the cash in the box. The Bank set up cash reserves in units of foundational institutions in the core accounting system. The Bank strengthened cash management in its branches, reduced the number of staff in cash reserves, and facilitate provincial branches to transfer cash across to different institution. Cash reserve was set up in branch offices; anti-forgery and e-accounting systems were continuously enhanced to control risks involved in documents, stamps and accounts management.

The Bank continued to consolidate its back office business. A trial was conducted to consolidate the documents clearing operations of different branches to regional financial service centers. The Bank adjusted its international settlement operation procedure, concentrating on 8 types of business, such as the issuance of letters of credit, collection of import bills and collection of export letters of credit, to the Headquarters document center. The Bank promoted a foreign currency draft connection system through which the Bank switched into using its Headquarters' unified capital settlement account to settle cash drafts with other banks. This simplified operating procedures, reduced cost, increased capital usage, and reduced the risk of asymmetrical information. The Bank also set up an employee identification system to unify access control for all kinds of business systems.

### 7.4 Advancing anti-fraud measures

The Bank continued to build an anti-fraud system. An anti-fraud system was developed, with a calculation function to automatically detect and provide early warning on potential fraud.

Development of phase one of the system has been completed and has seven anti-fraud rules. It was launched on a trial run basis in several branches. A special anti-fraud team was set up and dedicated personnel were deployed to the branches to carry out the work. The Bank also carried out training on professional knowledge and skill.

The Bank continued to prevent case risks and fraud cases. In early, middle and the end of 2009, the Bank carried out Bank-wide fraud risk reviews, case-specific control and case risk review on accounting, credit granting and documents control etc..

### 7.5 Implementing the “Basic Standard for Enterprise Internal Control”

The Bank carried out a new round of improvement on internal control, based on the standards of the “Basic Standard for Enterprise Internal Control” made by 5 regulators including the Ministry of Finance. Based on the “Basic Standard for Enterprise Internal Control” and other relevant guidances, as well as industry guidances and supervisory regulations, and by combining international common practices and practicality, the Bank designed a set of overall reviews instruments based on "Internal Control Manual" and "Internal Control Matrix". Also, the Bank promoted the "Enterprise Internal Control Basic Standards" according to consolidation of differences, defects-analysis, review and improvement, and procedures that were continuously enhanced. The Bank has currently finished sorting out 24 business functions in the internal control system, specified 3,146 items as key controls target, made 5,749 control measures and completed the review of consolidation of differences and internal control conditions on 20 business blocks, differences improvement work has begun.

In the future, the Bank will follow the "Basic Standard for Enterprise Internal Control" and the "Directives on Internal Control for Commercial Banks", by building a responsibility-based internal control system, that is "all-encompassing, clear on duty, coherent information" to specify the responsibilities of internal control, as well as enhancing the internal control review and improvement mechanism.

1. Enhancing the control on the process of the loans business. The Bank will enhance its analysis of industries, control loan approval, and the loan approval process management. The Bank will construct and enhance measures such as certifying the qualifications of loan approving officers, professional loan reviews and loan management responsibility. The Bank will also enhance the combined risk control measures of supervision and issue-specific reviews. The Bank will integrate various loan business systems to realise automation of loan marketing, review, approval and management.

2. Ensuring compliance with the New Basel Capital Accord. The Bank accelerated its compliance with integrating the risk classification of its credit assets, provision on impaired loans and internal ratings. The Bank also kept progressing with its compliance with the market and operational risk quantification and the second-pillar project in accordance with its schedule. The Bank planned to develop its integration of its client information system by implementing a "Global Client comprehensive liability management" system.

3. Setting up a Fund Total Process ("FTP"). The Bank will focus on managing capital, increasing the active management of asset and liability Bank-wide, guiding on price setting, constructing a stable and multi-level review system on performance and improve business control mechanisms.

4. Accelerating process optimisation and structural reforms. The Bank will carry out Bank-wide operational skill overall planning and cross-line consolidation in order to build an integrated operations framework. The Bank will also optimise its structure to increase the independence of the middle office function through the optimisation of the Headquarters' organisational structure. The Bank will continue the reforms in the sales organisational structure in new provincial sub-

branches. The Bank will also develop the integration of back office of its branches, promote the industry-wide exchange business system's integration, and implement consolidation of functional operations of front office of branches.

5. Building an electronic business platform. The Bank will build a new-generation overseas branch information system and a unified IT framework. This enhanced the global integrated wealth management function of the new system, and develops the connection between the banking and non-banking industry. The Bank will continue building a multi-functional e-banking system, an enhanced mobile banking business and enhancing the variety of services provided electronically. This will enable the Bank to develop its future operations with e-banking as its core and physical networks as the complement.

6. Keeping vigilant about crime and fraud. The Bank will establish a dynamic and standard case review system. The Bank will accelerate the development of phase two of its anti-fraud system and enhance its case-prevention measures.

The Board of Directors of the Bank has reviewed the effectiveness of the internal control system of the Bank and its subsidiaries, carried out internal self-approval and made the annual internal control self-appraisal report based on it.

## 8. ACCOUNTABILITY OF MAJOR MISTAKES IN INFORMATION DISCLOSURE IN ANNUAL REPORTS

According to the "Rules Regarding Information Disclosure Management", "Rules Regarding Major Information Internal Report Management" and "Rules Regarding, Major Information Internal Report Management for Subsidiaries" and "Procedures and Rules to Deal with Employees who Violates Regulations of the Bank", the employees responsible or having knowledge of the information disclosed will be held accountable according to the severity of the case if their mistakes in handling the disclosed information caused damage to the Bank due to negligence or violation of rules.

During the Reporting Period, no major mistake regarding information disclosure was found by the Bank.

## 9. SECURITIES TRANSACTIONS BY THE DIRECTORS AND SUPERVISORS

In 2009, the Board of the Directors of the Bank, according to new regulatory rules in domestic and overseas markets, reedited the "Rules regarding Shareholding of Directors, Supervisors and Senior Managers in the Bank and Changes in Shares", to specify the rules in detail on shareholding and changes in shares held and the disclosure process.

During the Reporting Period, the Bank's Board of Directors and Board of Supervisors and senior management have strictly abided by various regulatory rules and listing rules of the relevant stock exchange for their securities transactions. Based on specific inquiries made to the Directors and Supervisors, all of the Bank's Directors and Supervisors have complied with the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Hong Kong Listing Rules during the year ended 31 December 2009.

## 10. AUDITOR'S REMUNERATION

The Group's financial statements for the financial year ended 31 December 2009 prepared in accordance with International Financial Reporting Standards have been audited by PricewaterhouseCoopers LLP and the financial statements prepared in accordance with the China Accounting Standards have been audited by Deloitte Touche Tohmatsu CPA Ltd. and the total audit fees are approximately RMB50.50 million.

The costs for non-audit services provided to the Bank by PricewaterhouseCoopers LLP for 2009 are approximately RMB550 thousand. The Audit Committee of the Board of Directors has been informed of the nature of the non-audit services (such as the translation of documents) provided as well as the relevant fees. The Audit Committee is satisfied that the services provided have not impaired the independence of PricewaterhouseCoopers LLP.

## 11. INVESTOR RELATIONSHIP AND INFORMATION DISCLOSURE

The Bank's Board of Directors and senior management give serious attention to communications with investors. The investor relationship management team continued to maintain close communications and interaction with investors, to promote the investors' understanding and acknowledgement of the Bank.

During the Reporting Period, the Bank held four periodical results announcement press conferences. The Bank's senior management also went on a road show after the Annual Report press conference and visited its major institutional investors in countries and regions such as Hong Kong, Europe and the United States to report on the Bank's operating results and business development via one-to-one and small team dialogues. The Bank has also improved communications with investors via participation in investor seminars, receiving investors and analysts and reverse road shows. During the Reporting Period, the Bank's investor relationship management team received institutional investors and securities analysts for 100 times, attended 14 various investment promotional events held by domestic and foreign investment banks and securities firms and interacted with about 1,000 investors and analysts in 2009.

The Bank pays attention to the bonding work of investor relationship activities between the Bank and the investors. The investor relationship team provided feedback from the capital market about the hot topics of the management and development of the Bank and provided suggestions accordingly. The Bank also provided timely information to the market via all investor relationship channels abiding by the compliance rules.

The Bank will continue to work towards maximising shareholder value as its objective in the days ahead and continue to strengthen communications with investors and increase investors' knowledge and support of the Bank.

# Corporate Social Responsibilities

Fulfilling corporate social responsibilities has always been a basic principle of the Bank as a major state-controlled financial enterprise. It is also required by the nature of our core value which is “responsibility as its foundation and innovation to progress”, as well as a strategic decision of the Bank to achieve sustainable development and continuous growth of business. In 2009, the Bank insists on the unification of political responsibility for the state, economic responsibility for shareholders and social responsibility for clients, employees and the public. During the Reporting Period, the Bank initiated its appearance on the Fortune Global 500 by the US magazine “Fortune” and Global Top 50 Banks by the British magazine “The Banker”, which is the first time in history to have uplifted the image and social value of the Bank as a large state-owned bank.

## (I) INCLUSION OF THE “GREEN CREDIT” PROJECT IN ORDINARY MANAGEMENT

2009 is the second year since the Bank implemented its “Green Credit” project and the project has become part of our ordinary business operating management. Under the guidance of the theory of the “Green Credit’, the Bank focuses on the environmental risk of customers or projects throughout the entire loan granting process. The Green Credit is a key factor in the stage of loan initiation, whereby the Bank established the veto right scheme for non-compliance to environmental policy. In the stage of loan approval, the Bank puts much emphasis on the environmental responsibilities of the clients and specific environmental protection regulations for the particular industry which are key factors in evaluating the environmental risks of clients. For project loans, the Bank focuses on environmental compliance and major pollutants (such as waste water, exhaust gas, waste residue, noise etc.) control of such projects. In the stage of after-loan management, the Bank closely monitors the environmental risks of clients in the “Red” and “Yellow” categories and their impact on asset security of the Bank and moves swiftly to exit or reduce its exposure to such high-risk customers. The Bank strictly checks on “high energy consumption, pollution, resource consumption” projects, fully examines the outstanding loans, continuously promotes the reduction and exit from high-risk customers and continues to put environmental considerations into every aspect of its business development. During the Reporting Period, the Bank exited entirely from 45 projects in the restricted and phase-out categories, partially restricted, suspended and exited from 73 projects which did not comply with environmental regulations, achieving a decrease in credit balance of RMB506 million.

## (II) SUPPORTING THE DEVELOPMENT OF SMALL BUSINESSES THROUGH INNOVATION IN FINANCIAL SERVICES

During the Reporting Period, the Bank actively responded to the state's initiative to establish financial service organizations specifically to small businesses among commercial banks. Consequently, the Bank set up a specific business model for small businesses in Headquarters and branches as a pioneer in large banks, which is setting up a Small Business Credit Department in the Headquarters, setting up small business credit service centers and building up dedicated teams in branches, and setting up small enterprises credit services centers in sub-branches which have relatively concentrated and well-developed business of small business. As at the end of the Reporting Period, the Bank has established dedicated small business operations in 12 branches within the provinces such as Jiangsu, Zhejiang, Guangdong, Hubei, Hunan, Henan, Anhui and Sichuan. Loan balance to small businesses (in accordance to the criteria set by CBRC) reached RMB39.546 billion, an increase of 132.86% from the beginning of the year. In particular, "Zhang Ye Tong" loan, which caters specifically to the financing, settlement, cash management and wealth management needs of small businesses, achieved a balance of RMB39.071 billion, an increase of 154.70% from the beginning of the year.

During the Reporting Period, in line with the operating features and way of fund backflow of small businesses, the Bank launched two new innovative financial products, namely, the account overdraft and installments repayment for small business legal persons which simplifies the financing procedures for small businesses and relief their stress of repayment. As at the end of the Reporting Period, the Bank had processed 100 applications for installments repayments and granted loans amounting to approximately RMB320 million. The first account overdraft was also successfully issued.

The Bank extended the financing services to upstream and downstream businesses to develop supply chain financing as an effective way to serve small businesses. As at the end of the Reporting Period, credit balance to 1,654 businesses in supply chain amounted to RMB37.294 billion, representing an increase of 47.89% from the beginning of the year.

The Bank provided financial services to more trade-oriented small businesses by enhancing its cooperation with small-and-medium-sized banks throughout the country to further extend its coverage in supporting small businesses. During the Reporting Period, the Bank established cooperation with nearly 50 domestic banks in international settlement with transaction volumes doubling from the previous year.

## (III) SUPPORTING THE DEVELOPMENT OF RURAL VILLAGES

The Bank has developed an effective way for commercial banks to serve "agriculture, rural areas and farmers", by way of increasing credit support, innovating financial services and establishing rural banks.

In 2009, the Bank supported the successful implementation of national policy of "home appliances going to the countryside", by signing agreements with appliance manufactures such as Midea, Gree, Galanz etc.. The Bank also provided financing of RMB1.858 billion to retailers and suppliers of key agricultural enterprises in the industry of agriculture, rural areas and farmers, such as Beidahuang Rice etc.. The Bank is the agent for 6 special funds, namely rural compulsory education fund, agricultural insurance premium subsidy, sows reproduction insurance subsidy, compulsory education debt fund for ordinary nine-year education, new rural medical cooperatives subsidy and electronic appliances to the countryside subsidy, with a total flow of RMB3.835 billion, therefore making a significant contribution to the support of agriculture and education.

Dayi Bocom Xingmin Rural Bank, a subsidiary of the Bank, took several measures to support the development of local agricultural businesses, by providing loans amounting to RMB130 million to more than 60 farmers and more than 40 small-and-medium-sized agricultural businesses. Anji Bocom Rural Bank is also under active preparation.

## (IV) PROMOTING AND PROACTIVELY SERVING THE 2010 SHANGHAI WORLD EXPO

The Bank has actively executed its responsibilities and made the most advantage of its banking expertise as the Global Partner for the 2010 Shanghai World Expo. To ensure the payment of sponsorship, the Bank promptly entered into letter of guarantees with other Expo sponsors. The Bank also provided various sufficient financial support and guarantee to the infrastructure construction projects of the Expo. In particular, the Bank provided a credit limit of RMB17.5 billion to Shanghai Expo Bureau and Shanghai World EXPO Land Holding Co., Ltd.. As at the end of the Reporting Period, the Bank had loan balance to Shanghai Expo Bureau and Shanghai World EXPO Land Holding Co., Ltd. amounting to RMB5 billion. Additionally, the Bank provided relatively low-interest loans purchased from other banks for the Expo construction projects, which amounting to RMB4 billion.

The Bank adhered to the ideas of innovation and greenery promoted by the Expo. The Bank also sold precious metal merchandise to provide public with more channels of wealth management and took the opportunity of selling Expo tickets online to promote the construction of online shopping center to facilitate the clients in online shopping. The Bank also launched prepaid cards which is easy to use and quickly consumed and started trial runs on the use of banking cards at vending machines. The Bank also launched established Expo green outlets and the Expo green banking card. The Bank also tried to provide convenient financial services for international exhibitors with special permits from the State Administration of Foreign Exchange. At the end of 2009, the Bank had 267 accounts in domestic and foreign currencies for 113 international exhibitors.

The Bank actively built financial services stations and machines at the Expo sites. The Bank will set up 5 outlets and more than 100 ATM's in the Expo sites to provide convenient access to services for its visitors.

In order to support the operation of Expo, the Bank made the most advantage of its service channels and acted as a dealer of Expo tickets for Shanghai Expo Bureau by way of opening outlets, launching e-sale channels and proactively promoting client managers to promptly recoup funds. At the end of the Reporting Period, the Bank had achieved sales of tickets amounting to RMB400 million.

## (V) SUPPORTING RECONSTRUCTION IN THE QUAKE AFFECTED AREAS OF WENCHUAN

The Bank supported the reconstruction in quake affected areas through various measures of financial services to respond to the appeal of central government since the occurrence of Wenchuan earthquake. The Bank made it its priority to be involved in reconstruction projects, increased its support to reconstruction. The Bank also researched on innovative methods to support the rebuilding of the villages and attended meetings to discuss financing for quake-affected businesses and projects. By the end of the Reporting Period, the Bank had granted reconstruction loans amounting to RMB6.072 billion, including new loans in aggregate amounting to RMB2.707 billion. In 2009, our Sichuan branch was awarded excellent financial enterprise for its support and contribution to the quake reconstruction efforts driven by the Municipal Government of Chengdu and the Chengdu Branch of the People's Bank of China.

## (VI) ADVANCING THE ROAD TO TOMORROW, THE BOCOM EDUCATION ASSISTANCE PLAN FOR DISABLED YOUTHS

Following the signing of a RMB100 million cooperation agreement with the China Foundation for Disabled Persons in 2007, the Bank has donated RMB40 million to support the education of Chinese disabled youths. In the two years, the project in aggregate has assisted nearly 8000 disabled high school students and college freshmen in 25 provinces. This represents almost half of the total number of such disabled high school and college students in those provinces. The Bank also provided subsidies for equipment in 60 new and expanded schools for special education and 4 advanced education institutions for special education in 25 provinces.

## (VII) SETTING UP THE LIFELINE EXPRESS-BOCOM EYE MICROSURGERY TRAINING CENTRE

During the Reporting Period, the Bank donated RMB2.7 million to the Chinese Foundation for Lifeline Express. The Bank set up the "Lifeline Express-BOCOM Eye Microsurgery Training Center" in Jiangxi Provincial People's Hospital. The center provides training for eye specialists for the eye train hospital which was specially built for the "Lifeline Express" and provides free medical services to poor cataract patients in rural areas. The center had finished the training for one key eye surgeon, provided 20 distance teaching via web training and held one cataract prevention and treatment seminar since its establishment.

# Other Events

## 1. RELATED PARTY TRANSACTIONS

Details of related party transactions as at the end of the Reporting Period are disclosed in note 40 to the consolidated financial statements in this Annual Report.

## 2 MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

### 1. Material trust, sub-contract and lease

During the Reporting Period, the Bank has not held on trust to a material extent or entered into any material sub-contract or lease arrangement in respect of assets of other corporations, and no other corporation has held on trust to a material extent or entered into any material sub-contract or lease arrangement in respect of the Bank's assets.

### 2. Material guarantees

The provision of guarantees is one of the off-balance-sheet business in the ordinary course of business of the Bank. During the Reporting Period, the Bank did not have any material guarantees that need to be disclosed except for the financial guarantee services within the business scope as approved by PBOC.

### 3. Material events concerning entrusting other persons for cash management

No such matters concerning entrusting other persons for cash management occurred in the Bank during the Reporting Period.

## 3. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, there are no material litigation and arbitration that might have a significant impact on the operation of the Bank.

As at 31 December 2009, the Bank has been involved in certain outstanding litigations as defendant or third party. The outstanding litigation amount was about RMB1.379 billion. After consultations with the legal advisors, the Bank is of the view that these litigation cases will not have any significant impact on the financial position of the Group.

## 4. UNDERTAKINGS

### 1. Significant undertakings by the Ministry of Finance and their fulfilment

The Ministry of Finance, the largest shareholder of the Bank at the time of listing of A shares, undertook that, within 36 months after the listing of the Bank's A shares on the Shanghai Stock Exchange (i.e. till 15 May, 2010), it will not transfer or put the A shares held by it into trust of other parties, and it will not let the Bank repurchase the shares held by it. The Ministry of Finance has been in strict adherence to its undertakings.

### 2. Significant undertakings by HSBC and their fulfilment

HSBC, as the Bank's strategic investor, made certain undertakings such as restrictions on share transfer, rights to keep its shareholding percentage etc., in the Investor's Rights Agreement signed on 18 August, 2004 (for details please see Chapter 16 of the A share prospectus "Other Significant Events 2.2.1 Material Contracts with HSBC"). HSBC has been in strict adherence to its undertakings.

## 5. INTRA GROUP TRANSACTIONS

In accordance with the "Provisional Regulatory Guidance on Consolidated Financial Statements of Banks" promulgated by the banking regulatory authorities in China, the Bank has progressively formalised the management over all intra group transactions. The guidances on subsidiary risk management for different industries, such as securities and funds, leasing and trust and insurance, specify the contents and frequency of intra-group transactions report, in accordance with the industrial features of subsidiaries, which progressly developed the risk-monitoring, reporting, control and processing mechanism for intra group transaction.

During the Reporting Period, the Group reported intra-group transactions data on a monthly basis and assessed those data on a quarterly basis. The Group is not aware of any intra group transactions with intention of regulatory arbitrage and risk transfer, or without real business base or which are not based on market prices, that may have an adverse effect on the steady business operation of the Group.

## 6. DISCIPLINARY ACTIONS AGAINST THE BANK, ITS DIRECTORS, ITS SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, neither the Bank, nor any of its Directors, Supervisors and senior management was subject to any investigations by competent authorities, compulsory enforcement of judicial and discipline departments, investigation or administrative penalty by CSRC and public reprimand by the stock exchanges.

## 7. OTHER SIGNIFICANT EVENTS

### (1) Holdings of Shares Issued By Other Listed Companies

*(in RMB unless otherwise stated)*

| Stock code | Simplified stock name | Initial investment cost | Percentage shareholding (%) | Term-end cost | Gains/Losses in the Reporting Period | Equity movement in the Reporting Period | Accounting items | Source of shares |
|---|---|---|---|---|---|---|---|---|
| 600068 | Gezhouba | 135,080,299.07 | 1.42 | 385,259,000.00 | 92,043,124.11 | 90,305,411.93 | AFS securities | Foreclosed assets |
| 000979 | *ST Keyuan | 12,494,400.00 | 8.84 | 172,948,800.00 | – | 120,888,800.00 | AFS securities | Foreclosed assets |
| 03377 | Sino-Ocean Land | 140,254,526.78 | 0.36 | 129,199,552.86 | 751,410.66 | 65,418,594.21 | AFS securities | Equity investment |
| 00388 | HKEX | 2,279,929.83 | 0.07 | 95,122,656.80 | 4,114,631.92 | 43,044,201.86 | AFS securities | Equity investment |
| 00916 | Longyuan Power | 51,456,089.38 | 0.23 | 56,134,121.92 | 2,327,257.90 | 2,350,774.64 | Financial assets held for trading/AFS securities | Equity investment |
| 00658 | China High Speed Transmission | 34,721,568.78 | 0.22 | 46,595,001.60 | 616,336.00 | 11,873,432.82 | AFS securities | Equity investment |
| 000691 | *ST Lianyou | 4,343,750.00 | 2.15 | 40,101,500.00 | 2,193,805.92 | 26,035,500.00 | AFS securities | Equity investment |
| 00939 | China Construction Bank | 35,278,788.92 | – | 35,984,425.17 | 705,636.25 | – | Financial assets held for trading | Equity investment |
| 600774 | WUHAN HANSHANG GROUP | 4,903,274.93 | 2.35 | 32,390,000.00 | 19,589,382.21 | 14,674,616.53 | AFS securities | Equity investment |
| 00082 | VODONE | 17,139,741.50 | 0.70 | 25,076,070.40 | 7,936,328.90 | – | Financial assets held for trading | Equity investment |
| | Others | 290,520,270.32 | – | 273,724,686.74 | 15,316,326.65 | (21,624,696.58) | | |
| | **Total** | **728,472,639.51** | **–** | **1,292,535,815.49** | **145,594,240.52** | **352,966,635.41** | | |

Notes:

i) The table sets out the Group's holdings of shares in other listed companies that are classified as investment securities — available for sale and financial assets held for trading in the Group's consolidated financial statements.

ii) Gains or losses in the Reporting Period refer to the impact of such investments on the Group's consolidated net profit for the Reporting Period.

## (2) Holdings of Shares Issued By Unlisted Financial Institutions

*(in RMB unless otherwise stated)*

| Name of institution | Initial investment cost | Number of shares held | Percentage shareholding (%) | Term-end cost | Gains/Losses in the Reporting Period | Equity movement in the Reporting Period | Accounting items | Source of shares |
|---|---|---|---|---|---|---|---|---|
| Jiangsu Changshu Rural Commercial Bank Co., Ltd. | 380,000,000.00 | 57,560,225 | 10.00 | 380,000,000.00 | 13,670,553.44 | – | AFS securities | Equity investment |
| China Union Pay Co., Ltd. | 146,250,000.00 | 112,500,000 | 3.90 | 146,250,000.00 | 3,825,000.00 | – | AFS securities | Equity investment |
| **Total** | **526,250,000.00** | **170,060,225** | | **526,250,000.00** | **17,495,553.44** | **–** | | |

## (3) Purchases and Sales of Other Listed Equity Shares

*(in RMB unless otherwise stated)*

| | Number of shares held at beginning of period | Number of shares bought/sold during the period | Number of shares held at end of period | Purchase price (RMB) | Gains in the reporting period (RMB) |
|---|---|---|---|---|---|
| Purchases | 23,033,919 | 61,161,867 | 84,195,786 | 280,007,456.97 | – |
| Sales | 213,353,242 | 72,010,742 | 141,342,500 | – | 693,042,818.30 |

Notes:

All changes shown in the table above are results of sales and purchases of other listed equity shares by subsidiaries controlled by the Bank, except disposal of shares obtained as security for loans in the course of business.

*Sense of responsibility and care for the social well-being*

# Independent Auditors' Report

羅兵咸永道會計師事務所

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**INDEPENDENT AUDITOR'S REPORT**

**TO THE SHAREHOLDERS OF BANK OF COMMUNICATIONS CO., LTD.**

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

We have audited the consolidated financial statements of Bank of Communications Co., Ltd. ('the Bank') and its subsidiaries (collectively 'the Group') set out on pages 119 to 249, which comprise the Bank's and its consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 are responsible for the preparation and true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

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

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

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

## OPINION

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

## OTHER MATTERS

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

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 30 March 2010

# Consolidated Financial Statements

## Consolidated Statement of Comprehensive Income

(All amounts expressed in millions of RMB unless otherwise stated)

### *Group*

| | Note | For the year ended 31 December 2009 | 2008 Restated |
|---|---|---|---|
| Interest income | | 116,743 | 117,106 |
| Interest expense | | (50,075) | (51,244) |
| **Net interest income** | 4 | 66,668 | 65,862 |
| Fee and commission income | 5 | 13,414 | 10,121 |
| Fee and commission expense | 6 | (2,015) | (1,284) |
| **Net fee and commission income** | | 11,399 | 8,837 |
| Dividend income | 7 | 65 | 83 |
| Gains less losses arising from trading activities | 8 | 1,335 | 1,557 |
| Gains less losses arising from de-recognition of investment securities | 21 | 791 | 226 |
| Other operating income | 9 | 1,320 | 711 |
| Impairment losses | 10 | (11,255) | (10,690) |
| Other operating expenses | 11 | (32,022) | (30,633) |
| **Profit before tax** | | 38,301 | 35,953 |
| Income tax | 14 | (8,047) | (7,332) |
| **Net profit for the year** | | 30,254 | 28,621 |
| **Other comprehensive income** | | | |
| Transfer out of investment property revaluation gain | | (3) | — |
| Available-for-sale ("AFS") securities | | | |
| Changes in fair value taken to equity | | (795) | 645 |
| Changes in fair value transferred to net profit | | (902) | 497 |
| Translation difference on foreign operations | | 105 | (533) |
| Other comprehensive (loss)/income for the year | 37 | (1,595) | 609 |
| **Total comprehensive income for the year** | | 28,659 | 29,230 |
| **Net profit attributable to:** | | | |
| Shareholders of the Bank | | 30,118 | 28,524 |
| Non-controlling interest | | 136 | 97 |
| **Total comprehensive income attribute to:** | | | |
| Shareholders of the Bank | | 28,480 | 29,181 |
| Non-controlling Interest | | 179 | 49 |
| **Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)** | 15 | 0.61 | 0.58 |
| **Dividends** | | | |
| Interim dividends declared during the year | 33 | 4,899 | 4,899 |
| Final dividends proposed after the reporting date | 33 | 4,899 | 4,899 |

The accompanying notes presented on pages 125 to 249 form an integral part of these consolidated financial statements.

## Consolidated Statement of Financial Position

(All amounts expressed in millions of RMB unless otherwise stated)

### *Group*

| | Note | As at 31 December 2009 | 2008 Restated | As at 1 January 2008 Restated |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with central banks | 16 | 434,996 | 362,180 | 261,433 |
| Due from other banks and financial institutions | 17 | 222,671 | 331,511 | 156,110 |
| Financial assets held for trading | 18 | 29,254 | 26,936 | 19,340 |
| Loans and advances to customers | 20 | 1,801,538 | 1,298,776 | 1,082,788 |
| Investment securities — loans and receivables | 21 | 107,604 | 90,903 | 66,693 |
| Investment securities — available-for-sale (“AFS”) | 21 | 132,094 | 142,010 | 146,454 |
| Investment securities — held-to-maturity (“HTM”) | 21 | 509,179 | 367,878 | 326,953 |
| Property and equipment | 22 | 29,878 | 28,396 | 25,368 |
| Deferred income tax assets | 28 | 5,821 | 4,135 | 3,792 |
| Other assets | 23 | 36,102 | 25,524 | 16,593 |
| **Total assets** | | 3,309,137 | 2,678,249 | 2,105,524 |
| **LIABILITIES** | | | | |
| Due to other banks and financial institutions | 24 | 653,172 | 569,453 | 332,556 |
| Financial liabilities held for trading | 25 | 9,375 | 10,013 | 10,028 |
| Due to customers | 26 | 2,372,055 | 1,865,815 | 1,555,599 |
| Other liabilities | 27 | 53,349 | 43,199 | 35,564 |
| Current tax liabilities | | 3,726 | 4,165 | 5,872 |
| Deferred income tax liabilities | 28 | 35 | 4 | 253 |
| Debts issued | 30 | 53,000 | 40,000 | 37,000 |
| **Total liabilities** | | 3,144,712 | 2,532,649 | 1,976,872 |
| **EQUITY** | | | | |
| **Capital and reserves attributable to the Bank’s shareholders** | | | | |
| Share capital | 31 | 48,994 | 48,994 | 48,994 |
| Capital surplus | 31 | 44,404 | 44,407 | 44,407 |
| Other reserves | | 44,404 | 27,471 | 14,372 |
| Retained earnings | | 26,046 | 24,295 | 20,461 |
| | | 163,848 | 145,167 | 128,234 |
| **Non-controlling Interest** | | 577 | 433 | 418 |
| **Total equity** | | 164,425 | 145,600 | 128,652 |
| **Total equity and liabilities** | | 3,309,137 | 2,678,249 | 2,105,524 |

These consolidated financial statements were approved for issue by the Board of Directors on 30 March 2010 and signed on its behalf by:

*Chairman of Board: Hu Huaibang*

*Vice Governor and Chief Financial Officer: Yu Yali*

The accompanying notes presented on pages 125 to 249 form an integral part of these consolidated financial statements.

## Statement of Financial Position

(All amounts expressed in millions of RMB unless otherwise stated)

### *Bank*

| | Note | As at 31 December 2009 | 2008 Restated | As at 1 January 2008 Restated |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with central banks | 16 | 434,989 | 362,159 | 259,007 |
| Due from other banks and financial institutions | 17 | 221,113 | 330,861 | 154,976 |
| Financial assets held for trading | 18 | 28,627 | 26,735 | 19,323 |
| Loans and advances to customers | 20 | 1,801,996 | 1,299,365 | 1,082,060 |
| Investment securities — loans and receivables | 21 | 107,419 | 90,467 | 66,693 |
| Investment securities — available-for-sale (“AFS”) | 21 | 131,168 | 141,601 | 145,045 |
| Investment securities — held-to-maturity (“HTM”) | 21 | 509,020 | 367,799 | 326,953 |
| Investments in subsidiaries | 39 | 5,660 | 4,782 | 4,645 |
| Property and equipment | 22 | 29,295 | 27,793 | 24,713 |
| Deferred income tax assets | 28 | 5,864 | 4,176 | 3,820 |
| Other assets | 23 | 19,757 | 17,104 | 14,349 |
| **Total assets** | | 3,294,908 | 2,672,842 | 2,101,584 |
| **LIABILITIES** | | | | |
| Due to other banks and financial institutions | 24 | 642,614 | 565,685 | 332,556 |
| Financial liabilities held for trading | 25 | 9,375 | 10,015 | 10,028 |
| Due to customers | 26 | 2,372,759 | 1,866,566 | 1,555,599 |
| Other liabilities | 27 | 50,272 | 41,053 | 32,230 |
| Current tax liabilities | | 3,592 | 4,130 | 5,811 |
| Deferred income tax liabilities | 28 | 9 | 4 | 147 |
| Debts issued | 30 | 53,000 | 40,000 | 37,000 |
| **Total liabilities** | | 3,131,621 | 2,527,453 | 1,973,371 |
| **EQUITY** | | | | |
| **Capital and reserves attributable to the Bank’s shareholders** | | | | |
| Share capital | 31 | 48,994 | 48,994 | 48,994 |
| Capital surplus | 31 | 44,404 | 44,407 | 44,407 |
| Other reserves | | 44,199 | 27,526 | 14,007 |
| Retained earnings | | 25,690 | 24,462 | 20,805 |
| **Total equity** | | 163,287 | 145,389 | 128,213 |
| **Total equity and liabilities** | | 3,294,908 | 2,672,842 | 2,101,584 |

The accompanying notes presented on pages 125 to 249 form an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

(All amounts expressed in millions of RMB unless otherwise stated)

| | | | Other Reserves | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital Note 31 | Capital surplus Note 31 | Statutory reserve Note 32 | Discretionary reserve Note 32 | Statutory general reserve Note 32 | Revaluation reserve for AFS securities | Revaluation reserve for properties | Translation reserve on foreign operations | Retained earnings Note 31, 32 | Non-controlling interest | Total |
| **Balance at 1 January 2008 (Before restatement)** | 48,994 | 43,100 | 2,170 | 576 | 10,636 | 1,551 | 6,105 | (616) | 20,387 | 418 | 133,321 |
| Change of Accounting Policy (Note 2.2) | – | 1,307 | – | – | – | – | (6,105) | 55 | 74 | – | (4,669) |
| **Balance at 1 January 2008 (Restated)** | 48,994 | 44,407 | 2,170 | 576 | 10,636 | 1,551 | – | (561) | 20,461 | 418 | 128,652 |
| Net profit | | | | | | | | | 28,524 | 97 | 28,621 |
| Changes in fair value taken to equity | – | – | – | – | – | 698 | – | – | – | (58) | 640 |
| Changes in fair value transferred to net profit | – | – | – | – | – | 487 | – | – | – | 10 | 497 |
| Translation difference on foreign operations | – | – | – | – | – | – | – | (533) | – | – | (533) |
| Tax rate change impact | – | – | – | – | – | 5 | – | – | – | – | 5 |
| **Total comprehensive income** | – | – | – | – | – | 1,190 | – | (533) | 28,524 | 49 | 29,230 |
| Establishment of new subsidiary | – | – | – | – | – | – | – | – | – | 23 | 23 |
| Dividends | – | – | – | – | – | – | – | – | (12,248) | (57) | (12,305) |
| Transfer to other reserves | – | – | 1,993 | 8,511 | 1,938 | – | – | – | (12,442) | – | – |
| **Balance at 31 December 2008 (Restated)** | 48,994 | 44,407 | 4,163 | 9,087 | 12,574 | 2,741 | – | (1,094) | 24,295 | 433 | 145,600 |
| **Balance at 1 January 2009 (Before restatement)** | 48,994 | 43,100 | 4,163 | 9,087 | 12,574 | 2,741 | 6,090 | (1,212) | 24,125 | 433 | 150,095 |
| Change of Accounting Policy (Note 2.2) | – | 1,307 | – | – | – | – | (6,090) | 118 | 170 | – | (4,495) |
| **Balance at 1 January 2009 (Restated)** | 48,994 | 44,407 | 4,163 | 9,087 | 12,574 | 2,741 | – | (1,094) | 24,295 | 433 | 145,600 |
| Net profit | | | | | | | | | 30,118 | 136 | 30,254 |
| Changes in fair value taken to equity | – | – | – | – | – | (838) | – | – | – | 43 | (795) |
| Changes in fair value transferred to net profit | – | – | – | – | – | (902) | – | – | – | – | (902) |
| Translation difference on foreign operations | – | – | – | – | – | – | – | 105 | – | – | 105 |
| Transfer out of investment property revaluation gain | – | (3) | – | – | – | – | – | – | – | – | (3) |
| **Total comprehensive income** | – | (3) | – | – | – | (1,740) | – | 105 | 30,118 | 179 | 28,659 |
| Dividends | – | – | – | – | – | – | – | – | (9,799) | (35) | (9,834) |
| Transfer to other reserves | – | – | 5,786 | 6,900 | 5,882 | – | – | – | (18,568) | – | – |
| **Balance at 31 December 2009** | 48,994 | 44,404 | 9,949 | 15,987 | 18,456 | 1,001 | – | (989) | 26,046 | 577 | 164,425 |

The accompanying notes presented on pages 125 to 249 form an integral part of these consolidated financial statements.

## Consolidated Statement of Cash Flows

(All amounts expressed in millions of RMB unless otherwise stated)

| | For the year ended 31 December 2009 | 2008 Restated |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Profit before taxation: | 38,301 | 35,953 |
| Adjustments for: | | |
| Impairment of loans and advances to customers | 10,735 | 10,190 |
| Reversal of impairment of due from other banks and financial institutions | (3) | (25) |
| Impairment/(reversal of impairment) of other receivables | 55 | (67) |
| (Reversal of impairment)/impairment of investment securities | (157) | 1,090 |
| Depreciation of property and equipment | 2,880 | 2,507 |
| Amortization of deferred assets | 430 | 15 |
| Amortization of land use rights | 31 | 6 |
| Amortization of intangible assets | 230 | 228 |
| Interest income from investment securities | (23,320) | (22,430) |
| Gains less losses arising from de-recognition of investment securities | (791) | (226) |
| Gains on disposal of fixed assets | (86) | (47) |
| (Increase)/decrease in the fair value of investment property | (18) | 19 |
| Interest expense on debt issued | 2,011 | 1,724 |
| Fee on debt issue | 45 | 10 |
| Net increase in mandatory reserve deposits | (82,348) | (52,035) |
| Net decrease/(increase) in due from other banks and financial institutions | 61,141 | (94,420) |
| Net increase in financial assets held for trading | (2,318) | (7,596) |
| Net increase in loans and advances to customers | (513,497) | (226,178) |
| Net increase in other assets | (9,575) | (6,391) |
| Net increase in due to other banks and financial institutions | 83,719 | 236,897 |
| Net decrease in financial liabilities held for trading | (638) | (15) |
| Net increase in due to customers | 506,240 | 310,216 |
| Net increase in other liabilities | 10,109 | 8,537 |
| Net increase in business tax payable | 159 | 199 |
| Income tax paid | (9,588) | (9,951) |
| **Net cash from operating activities** | 73,747 | 188,210 |

## Consolidated Statement of Cash Flows *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

| | For the year ended 31 December 2009 | 2008 Restated |
|---|---|---|
| **Cash flows from investing activities:** | | |
| Purchase of investment securities | (676,695) | (358,688) |
| Disposal or redemption of investment securities | 527,309 | 298,726 |
| Interest received from investment securities | 21,988 | 20,380 |
| Acquisition of intangible assets and deferred assets | (579) | (75) |
| Purchase of land use rights | (112) | (185) |
| Disposal of land use rights | 178 | — |
| Purchase and construction of property and equipment | (4,679) | (6,983) |
| Disposal of property and equipment | 403 | 1,026 |
| **Net cash used in investing activities** | (132,187) | (45,799) |
| **Cash flows from financing activities:** | | |
| Debts issued | 25,000 | 3,000 |
| Fee on debt issue | (45) | (10) |
| Interest paid on debt | (1,960) | (1,666) |
| Dividends paid | (9,862) | (13,407) |
| Repayment of debt | (12,000) | — |
| Non-controlling interest — capital contribution | — | 23 |
| Dividends paid to non-controlling interest | (35) | (57) |
| **Net cash from/(used in) financing activities** | 1,098 | (12,117) |
| **Effect of exchange rate changes on cash and cash equivalents** | 108 | (626) |
| **Net (decrease)/increase in cash and cash equivalents** | (57,234) | 129,668 |
| **Cash and cash equivalents at the beginning of the period** | 225,732 | 96,064 |
| **Cash and cash equivalents at the end of the period** (Note 38) | 168,498 | 225,732 |
| **Supplementary Information** | | |
| Interest received | 114,846 | 114,053 |
| Interest paid | (47,178) | (40,011) |

The accompanying notes presented on pages 125 to 249 form an integral part of these consolidated financial statements.

## 1 GENERAL

Bank of Communications Co., Ltd. (the 'Bank') is a commercial and retail bank providing banking services mainly in the People's Republic of China ('PRC'). The Bank was reorganised as a joint stock national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People's Bank of China ('PBOC'). Headquartered in Shanghai, the Bank operates 107 city level branches in the PRC. In addition, the Bank has branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt and Macao. The Bank's A shares are listed on Shanghai Stock Exchange and H shares are listed on Hong Kong Stock Exchange.

## 2 ACCOUNTING POLICIES

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

### 2.1 Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ('IFRS') and disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost method except the revaluation of investment securities classified as available-for-sale, financial assets and financial liabilities held at fair value through profit or loss, investment properties and all derivative contracts, which are carried at fair value.

***Critical accounting estimates and judgments in applying accounting policies***

The preparation of financial statements in conformity with IFRS and the disclosure requirements of the Hong Kong Companies Ordinance requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

a) *Impairment losses on loans and advances*

The Group reviews its loan portfolios to assess impairment on a quarterly basis, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) *Fair value of financial instruments*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include discounted cash flows analysis and models. To the practical extent, only observable data are used in models, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(All amounts expressed in millions of RMB unless otherwise stated)

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.1 Basis of presentation *(Continued)*

***Critical accounting estimates and judgments in applying accounting policies*** *(Continued)*

c) *Income taxes*

The Group is subject to income taxes in various jurisdictions; principally in the Mainland China and Hong Kong. Significant estimates are required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is judgemental. The Group recognizes liabilities on anticipated tax audit issues based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in Mainland China is subject to government approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made (Note 28).

d) *Held-to-maturity*

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in IAS 39 such as, selling an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would therefore be measured at fair value, not at amortised cost.

e) *Impairment of available-for-sale financial assets and held to maturity securities*

The Group follows the guidance of IAS 39 to determine when an available-for-sale or held to maturity financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

The following standards and amendments, which became effective in 2009 are relevant to the Group:

| Standards, Amendments and Interpretations | Content | Applicable for financial years beginning on/after |
|---|---|---|
| Amendment to IFRS 7 | Financial instruments: Disclosures | 1 January 2009 |
| IFRS 8 | Operating Segments | 1 January 2009 |
| IAS 1 (revised) | Presentation of Financial Statements | 1 January 2009 |
| IFRIC 13 | Customer Loyalty Programs | 1 July 2008 |

- *Amendment to IFRS 7, 'Financial Instruments: Disclosures'*

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

(All amounts expressed in millions of RMB unless otherwise stated)

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.1 Basis of presentation *(Continued)*

***Critical accounting estimates and judgments in applying accounting policies*** *(Continued)*

The following standards and amendments, which became effective in 2009 are relevant to the Group: *(Continued)*

- *IFRS 8, 'Operation Segments'*
  The standard replaces IAS 14, 'Segment Reporting' with its requirement to determine primary and secondary reporting segments. Under the requirements of the new standard, the Group's external segmental reporting will be based on the internal reporting to the chief operating decision maker who makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any effect on the Group's operating results, financial position or comprehensive income but has an impact on disclosure. The segmental disclosure has been changed accordingly.

- *IAS 1 (revised), 'Presentation of Financial Statements'*
  It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 on 1 January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings. In addition, the amendment of IAS 1 also requires an entity to present a financial position as at the beginning of the earliest comparative period in a complete set of financial statements when the entity makes a retrospective restatement in accordance with IAS 8's requirement. The Group has applied this requirement for its change of accounting policy on its property and equipment for the year ended 31 December 2009.

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

The following standards, amendments and interpretations became effective for financial years beginning on 1 January 2009, but were not relevant for the Group:

| **Standards, Amendments and Interpretations** | **Content** | **Applicable for financial years beginning on/after** |
|---|---|---|
| IFRS 2 | Share-based Payment — Vesting Conditions and Cancellations | 1 January 2009 |
| IAS 23 (revised) | Borrowing Costs | 1 July 2009 |
| Amendments to IAS 32 and IAS 1 | Puttable financial instruments and instruments obligations arising on liquidation | 1 July 2009 |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | 1 October 2008 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of presentation *(Continued)*

***Critical accounting estimates and judgments in applying accounting policies*** *(Continued)*

The Group has chosen to early adopt the revised IAS 24 that was issued and will be effective on 1 January 2011:

In 2009, the Group partially adopted the revised IAS 24 — Related Party Disclosures. The Group applied the exemption in IAS 24 revised regarding disclosure requirements for government-related entities. The previous version of IAS 24 did not contain any specific guidance for government-related entities retrospectively, and therefore, the Group was required to disclose transactions with the government and other government-related entities. The amendment introduces an exemption from certain disclosure requirements of IAS 24 for transactions between government-related entities and the government. The early application does not have any material effect on the Group's operating results and financial position or comprehensive income. The previous year's related party disclosures have been changed accordingly.

The remainder of the revised standard will be applied in the annual period beginning on and after 1 January 2011 and will not have any impact on the Group's operating results, financial position or comprehensive income.

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting period beginning on 1 January 2009:

| Standards, Amendments and Interpretations | Content | Applicable for financial years beginning on/after |
|---|---|---|
| IFRS 1 and IAS 27 (revised) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | 1 July 2009 |
| IFRS 3 (revised) | Business Combinations | 1 July 2009 |
| IAS 27 (revised) | Consolidated and Separate Financial Statements | 1 July 2009 |
| IAS 39 (revised) | Financial Instruments: Recognition and Measurements — Eligible Hedged Items | 1 July 2009 |
| IFRIC 17 | Distribution of Non-Cash Assets to Owners | 1 July 2009 |
| IFRIC 18 | Transfers of Assets from Customers | 1 July 2009 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 |
| IAS 32 Amendment | Classification of Rights Issues | 1 February 2010 |
| IFRS 9 | Financial Instruments part 1: Classification and Measurement | 1 January 2013 |

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.1 Basis of presentation *(Continued)*

***Critical accounting estimates and judgments in applying accounting policies*** *(Continued)*

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting period beginning on 1 January 2009: *(Continued)*

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into one of two measurement categories: those to be measured subsequently at fair value or those to be measured subsequently at amortised cost. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- A financial instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only unleveraged payments of principal and interest. All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the impact of the standard on the consolidated financial statements and the timing of its application.

Except for the application of IFRS 9, the adoption of other standards, amendments and interpretations as mentioned above is not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

## 2.2 Changes in accounting policy

The Group historically used the revaluation model to measure its property and equipment in the financial statements prepared under IFRS for H shareholders. On the other hand, its property and equipment is measured using the cost model in the financial statements prepared under generally accepted accounting principles in the PRC ('PRC GAAP') for A shareholders. According to the relevant regulations issued by the Ministry of Finance (the 'MOF') of the PRC, listed companies are required to adopt consistent accounting policies for the same transactions in both financial statements. Also the Group considers that the cost model will improve the comparability of certain financial performance data and results of operations of the Group with other banks. Effective from 2009, the Group changed its accounting policy in the financial statements prepared under IFRS from the revaluation model to the cost model, and thereby eliminating the difference in the accounting policy for property and equipment applied in the two sets of financial statements.

(All amounts expressed in millions of RMB unless otherwise stated)

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.2 Changes in accounting policy *(Continued)*

The Group has made retrospective adjustments to prior period financial statements; the comparative financial statements for the year ended 31 December 2008 and the comparative statement of financial position as at 31 December 2007 have been restated accordingly. The major adjustments made to the prior period's financial statements are as follow:

***Consolidated Statement of Financial Position***

| | At beginning of year 2009 increase/(decrease) | At beginning of year 2008 increase/(decrease) |
|---|---|---|
| **Asset** | | |
| Property and equipment | (6,883) | (6,831) |
| Deferred income tax assets | 1,442 | 1,268 |
| Other assets | 743 | 643 |
| **Liability** | | |
| Deferred income tax liabilities | (203) | (251) |
| **Equity** | | |
| Capital surplus | 1,307 | 1,307 |
| Other reserves | (5,972) | (6,050) |
| Retained earnings | 170 | 74 |

***Consolidated Statement of Comprehensive Income***

| | For the year ended 31 December 2009 increase/(decrease) | For the year ended 31 December 2008 increase/(decrease) |
|---|---|---|
| Other operating expenses | 257 | 234 |
| Income tax | (64) | (103) |
| Net profit for the year | 193 | 131 |
| Total comprehensive income for the year | 193 | 174 |
| Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan) | — | — |

## 2.3 Subsidiary

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

## 2 ACCOUNTING POLICIES *(Continued)*

### 2.3 Subsidiary *(Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill. Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the stand alone financial statements of the Bank, the subsidiaries are measured at cost less provision for impairment. The amount of impairment loss is included in the net profit or loss for the year. The results of subsidiaries are accounted for by the Bank on the basis of dividend received and receivable. The Group applies a policy of treating transactions with non-controlling interests as transactions with external parties.

### 2.4 Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, and other derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active market and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) 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 only data from observable markets. When such evidence exists, the Group recognises profit or loss on day 1.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract and the host contract is not a financial asset or a liability at fair value through profit or loss, with unrealized gains and losses reported in the statement of comprehensive income. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive income.

Certain derivative transactions, while considered as hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading.

Changes in the fair value of derivatives held for trading are included in gains less losses arising from trading activities.

## 2 ACCOUNTING POLICIES *(Continued)*

### 2.5 Financial assets

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

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

Financial assets are designated at fair value through profit or loss when:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring the financial assets or recognizing the gains or losses on them on different bases; or

- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis; or

- Financial assets, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows.

#### b) *Loans and receivables*

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

#### c) *Held to maturity financial assets*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.5 Financial assets *(Continued)*

### d) *Available for sale financial assets*

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

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

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in gains less losses arising from trading activities in the period in which they arise. Gains or losses arising from changes in the fair value of available for sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gains or losses previously recognised in equity is recognised in profit or loss. Interest earned whilst holding financial assets, including available for sale financial assets, is reported as interest income using the effective interest rate method and foreign currency gains or losses in monetary assets classified as available-for-sale are recognised in the statement of comprehensive income.

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

## 2.6 Impairment of financial assets

### a) *Assets carried at amortised cost*

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

## 2 ACCOUNTING POLICIES *(Continued)*

### 2.6 Impairment of financial assets *(Continued)*

#### a) ***Assets carried at amortised cost*** *(Continued)*

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

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

The amount of a loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude) to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.6 Impairment of financial assets *(Continued)*

### a) ***Assets carried at amortised cost*** *(Continued)*

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income in the impairment charge for credit losses.

### b) ***Assets classified as available-for-sale***

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

## 2.7 Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

### a) ***Financial liabilities at fair value through profit or loss***

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

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

A financial liability is typically classified as fair value through profit or loss at inception if it meets the following criteria:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring the financial liabilities or recognising the gains or losses on them on different bases; or
- Part of a group of financial liabilities that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis; or
- Financial liabilities, such as debt securities issued, containing one or more embedded derivatives significantly modify the cash flows.

Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains or losses from changes in fair value are recognised in the statement of comprehensive income.

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.7 Financial liabilities *(Continued)*

### b) *Other financial liabilities*

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

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

## 2.8 Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for interest-bearing instruments on an accruals basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

## 2.9 Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided. Loan syndication fees are recognised as commission income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party — such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses — are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

## 2.10 Dividend income

Dividends are recognised in the statement of comprehensive income statement when the Group's right to receive payment is established.

## 2.11 Sale/purchase and repurchase/resale agreements

Securities sold subject to a linked repurchase agreements ('repos') with banks and other financial institutions are retained in the financial statements as financial assets held for trading or investment securities, as the Group still retains substantially all risk and rewards of the ownership of the underlying securities. The related liability is recorded as due to other banks and financial institutions.

(All amounts expressed in millions of RMB unless otherwise stated)

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.11 Sale/purchase and repurchase/resale agreements *(Continued)*

Securities purchased under agreements to resell ('reverse repos') are recorded as due from other banks and financial institutions and the securities are not included in the statement of financial position. The difference between sale and repurchase price (purchase and resale price) is treated as interest expense (income) and accrued over the life of the repos (reverse repos) using the effective interest method.

## 2.12 Property and equipment

The Group's fixed assets mainly comprise land and buildings, equipment, motor vehicles, property improvement and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

Property and equipment are reviewed for impairment at each reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of comprehensive income.

Buildings comprise primarily branches and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, motor vehicles and property improvement are as follows:

| **Type of assets** | **Estimated useful lives** | **Estimated residual value rate** | **Depreciation rate** |
|---|---:|---:|---:|
| Land and buildings | 25–50 years | 3% | 1.94%–3.88% |
| Equipment | 3–11 years | 3% | 8.82%–32.33% |
| Motor vehicles | 4–8 years | 3% | 12.13%–24.25% |
| Property improvement | 5–10 years | — | 10%–20% |

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

## 2 ACCOUNTING POLICIES *(Continued)*

### 2.13 Foreclosed assets

Foreclosed assets are initially and subsequently measured at lower of carrying values or fair value less cost to sale. Foreclosed assets are included in the balance of other assets.

### 2.14 Land use rights

Land use rights are recognised initially at 'cost', being the consideration paid for the rights to use and occupy the land. Land use rights are amortised using the straight-line method to write off the cost over their estimated useful lives of 30 to 70 years.

Land use rights are not separately presented from building, when they are acquired together with the building at inception and the costs attributable to the land use rights cannot be reasonably measured and separated from that of the building.

### 2.15 Intangible assets

Intangible assets are recognised initially at their costs, which include expenditure that is directly attributable to the acquisition of the items. Where payment for an intangible asset is deferred beyond normal credit terms, its cost is the equivalent cash price. Costs associated with maintaining computer software program are recognised as an expense as incurred. However, expenditure that enhances or extends the performance of computer software program beyond their original specifications is recognised as capital improvement and added to the original cost of the software. Amortization for intangible assets is calculated on a straight-line basis from the month of acquisition over the estimated useful period and is recognised in the statement of comprehensive income. Intangible assets are stated at cost less accumulated amortization and impairment.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

### 2.16 Investment property

Property held to earn rentals which is not occupied by the Group is classified as investment property. Investment property comprises land and buildings.

Investment property is initially measured at its cost, which includes expenditure that is directly attributable to the acquisition of the items. Subsequent to initial recognition, the Group adopts the fair value model to account for its investment property. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Where active market price information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets. These valuations are reviewed annually by an independent valuer. Changes in fair values are recorded in the statement of comprehensive income.

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.17 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.18 Leases

***a) Finance lease***

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable in "Other assets". The difference between the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs and their present value is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

***b) Operating lease***

All leases other than finance leases are classified as operating leases.

The leases entered into by the Group as lessee have been determined to be operating leases. The lease payments/receipts made under operating leases are charged to/recognised in the statement of comprehensive income on a straight-line basis over the period of the lease.

## 2.19 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central banks (after deduction of mandatory reserve deposits) and amounts due from other banks and financial institutions used for the purpose of meeting short-term cash commitments.

## 2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

## 2.21 Current and deferred income taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.21 Current and deferred income taxes *(Continued)*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Bank and the subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from depreciation of property and equipment, impairment of loans and advances, receivables and other assets, and revaluation of certain financial assets and liabilities. The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred income tax liabilities are the amounts of income tax payable in respect of taxable temporary differences, which are measured at the amount expected to be paid to the tax authorities in the future.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Deferred income tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of comprehensive income.

## 2.22 Share capital

***a) Share issue costs***

External costs directly attributable to the issue of new shares are shown in equity as a deduction, from the proceeds.

***b) Dividends on ordinary shares***

Dividends on ordinary shares are recognised in equity in the financial period in which they are declared and approved by the Bank's shareholders.

## 2.23 Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. Acceptances are accounted for as financial guarantees and credit related commitments transactions and are disclosed as contingent liabilities and commitments.

## 2.24 Employee benefits

***a) Staff benefit and retirement benefit obligations***

Salaries and bonuses, housing benefits and costs for social security benefits are accrued in the financial period in which the services are rendered by employees of the Group. The Group also participates in various defined contribution retirement plans principally organized by municipal and provincial governments.

## 2 ACCOUNTING POLICIES *(Continued)*

### 2.24 Employee benefits *(Continued)*

***a) Staff benefit and retirement benefit obligations*** *(Continued)*

In addition, the Bank pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Bank's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Bank is committed to pay to the employees after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on government bonds at the reporting date, the maturity dates of which approximate to the terms of the Bank's obligations. Actuarial gains and losses, changes in actuarial assumptions and amendments to pension plan are charged or credited to the statement of comprehensive income as they occur.

Employees in Mainland China who retire after 1 January 2009 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries. The Bank's contributions to annuity plans are charged to the statement of comprehensive income in the financial period to which they relate. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions retained in the Annuity Plan.

***b) Share-based compensation***

The Group operates a cash-settled, share-based compensation plan for certain senior management of the Bank, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income with a corresponding adjustment to the liability recognised.

### 2.25 Foreign currency translation

***a) Functional and presentation currency***

The Group's presentation currency is Renminbi ('RMB'), the legal currency of China. Items included in the financial statements of each of the entities of the Group are measured using the currency that best reflects the economic environment of the underlying events and circumstances relevant to that entity ('the functional currency'). The consolidated financial statements are presented in RMB which is the functional and presentation currency of the Bank.

***b) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Translation differences on non-monetary items, such as equities classified as available for sale financial assets, are included in the fair value reserve in equity.

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.25 Foreign currency translation *(Continued)*

### c) ***Group companies***

The operating results and financial positions of all group companies that have different functional currencies from RMB:

— Assets and liabilities for each statement of financial position are translated at the closing rate at the reporting date;

— Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— All resulting exchange differences are recognised as a separate component equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings are recorded in equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

## 2.26 Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation can not be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

## 2.27 Financial guarantee contracts

The Group has the following types of financial guarantee contracts: acceptances, letters of credit and letters of guarantee issued.

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is recorded in the statement of comprehensive income.

# 2 ACCOUNTING POLICIES *(Continued)*

## 2.28 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee, custodian or agent.

The Group grants entrusted loans on behalf of third-party lenders. The Group grants loans to borrowers, as agent, at the direction of the third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans which are recognised ratably over the period the service is provided. The risk of loss is borne by the third-party lenders.

## 2.29 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team as represented by the governor as its chief operating decision maker.

An operating segment is the component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance, and (3) the information of financial position, operating results and cash flows for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

Intra-segment revenue and costs are eliminated. Income and expenses directly associated with each segment are included in determining segment performance.

The Group has the following segments: Northern China, North-eastern China, Eastern China, Central & Southern China, Western China, Head Office, and Overseas.

## 2.30 Offset financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

# 3 FINANCIAL RISK MANAGEMENT

## Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing risks are core to the financial business, and operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### Overview *(Continued)*

The Board of Directors provides strategy and risk preference for overall risk management and decides the risk tolerance. The senior management establishes related risk management policies and procedures under the strategy approved by the Board, including written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. The Chief Risk Officer assumes the overall risk management responsibility on behalf of the senior management. The Risk Management Department at head office, as the main Risk Management Department, undertakes the overall risk management function of the Group. The risk management division in each head office's department, the Risk Management Department of each domestic and overseas branch and subsidiary undertakes the specific risk management function. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The main types of operational risks are credit risk, liquidity risk and market risk which also includes currency risk, interest rate risk and other pricing risk.

### 3.1 Credit risk

The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or unwilling to meet its obligations under a contract. Significant changes in the economy, or those in credit quality of a particular industry segment or concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Credit risk increases when the counterparties are in the similar geographical or industry segments. Credit exposures arise principally from loans and advances, debt securities and due from banks and other financial institutions. There is also credit risk in off-statement financial arrangements such as loan commitments. The majority of the Group's operation is located within Mainland China, where different regions in China have their own unique characteristics in economic development. The risk management department at head office is responsible for the overall management of the Group's credit risk, and reported to the Bank's senior management and Board of Directors regularly. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such limits are monitored on a regular basis and subject to an annual review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also partially managed in part by obtaining collateral and corporate and personal guarantees.

#### ***3.1.1 Credit risk measurement***

*(a) Loans and advances and off statement exposures*

In measuring credit risk of loan and advances to corporate customers at a counterparty level, the Group considers three factors (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposure to the counterparty and its likely future development, from which the Group derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These, as required under IAS 39, are based on losses that have been incurred at the reporting date rather than expected losses.

(i) Corporate loans: the Group assesses the different default possibility of individual corporate customers using an internally developed 10-grade system. The system was developed internally using credit officer's judgment and is validated, where appropriate, by comparison to externally available data. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. The Group regularly validates the performance of the 10-grade system and their predictive ability with regard to default events.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### ***3.1.1 Credit risk measurement*** *(Continued)*

*(a) Loans and advances and off statement exposures (Continued)*

Group's internal rating scale

| **Group's rating** | **Description of the grade** |
|---|---|
| 1 | Basically borrower does not default with solid debt servicing capacity. |
| 2 | Less affected by uncertainties, borrower is extremely unlikely to default with solid debt servicing capacity. |
| 3 | Sometimes affected by uncertainties, borrower is unlikely to default with sufficient debt servicing capacity. |
| 4 | Affected by some uncertainties, borrower is less likely to default with favourable debt servicing capacity. |
| 5 | Basically borrower will not default under normal circumstances. It has the capability of repayment on principal and interest. Though uncertainties exist, it is extremely unlikely to downgrade Risk Grading. |
| 6 | Borrower currently has repayment capabilities for principal and interest with possibilities of default. Uncertainties might impact repayment and downgrade Risk Grading. Generally, effective guarantees are required for continued access to financing. |
| 7 | Borrower is more likely to default in despite of having certain level of debt serving capacity. However, uncertainties will materially affect its solvency. Very effective guarantees are required for continued access to financing. |
| 8 | Borrower has defaulted or is very likely to default with an obvious difficulty in debt serving capacity. Normal operating income fails to ensure full repayment of principal and interest. A certain loss may still occur even with the guarantees. |
| 9 | Borrower has defaulted without full repayment of principal and interest. More serious loss may still occur even with the guarantees. |
| 10 | Borrower's severe default results in full or partial loan loss after taking all feasible actions and necessary legal procedures. |

Customers with grade 1–5 are considered by the Group as high-quality customers, grade 6–7 are considered as general quality customers and grade 8–10 are considered as risk-quality customers. The Group adopts different business strategy for different customers' grading.

Exposure at default is based on the amounts the Group expects to be owed at the time of default. For a commitment, the Group includes any amount already drawn plus any further amount that may have been drawn by the time of default, should it occur.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.1 ***Credit risk measurement*** *(Continued)*

(a) *Loans and advances and off statement exposures (Continued)*

Group's internal rating scale *(Continued)*

Loss given default or loss severity represents the Group's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

The Group has issued credit related commitments, guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the events that a customer cannot meet its obligations to third parties. These instruments carry similar credit risk as loans, so the Group manages such credit risk together with loan portfolio.

(ii) Retail loans: the Group monitors the overdue status of its loans and advances to retail customers in managing credit risk. The Group identifies credit exposures by industry, geography and customer risk. This information is monitored regularly by senior management.

(b) *Debt securities*

For debt securities and other bills, external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk. The investment in those securities and bills is to gain better credit quality while maintaining readily available funding sources.

(c) *Loans to banks and other financial institutions*

The head office monitored and reviewed the credit risk of loans to banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

### 3.1.2 ***Risk limit control and mitigation policies***

The Group manages, limits and controls concentrations of credit risk wherever they are identified — in particular, to individual counterparties and groups, and to industries and regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-statement exposures, and daily delivery risk limits. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.2 Risk limit control and mitigation policies *(Continued)*

Some other specific control and risk mitigation measures are outlined below.

(a) *Collateral*

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is taking collateral, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

The value of collateral at the time of loan origination is determined by the credit authorization department and the amount of the loan granted is subject to loan-to-value ratio limits based on collateral type. The principal types of collateral corporate loans and retail loans are as follows:

| **Collateral** | **Maximum loan-to-value ratio** |
|---|---|
| Cash deposits with the Group | 90% |
| PRC treasury bonds | 90% |
| Financial institution bonds | 90% |
| Publicly traded stocks | 60% |
| Rights to collect fees or operate | 60% |
| Properties | 70% |
| Land use rights | 70% |
| Vehicles | 50% |

Longer-term financing and lending to corporate entities and retail customers are generally secured; while revolving individual credit facilities are generally unsecured. In addition, in order to minimize the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noted for the relevant individual loans and advances.

For loans guaranteed by a third party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.2 Risk limit control and mitigation policies *(Continued)*

(b) *Derivatives*

The Group maintains strict limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivatives, is only a fraction of the contracted amount (or notional values used to express the amount outstanding). This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made with the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of settlement risk arising from the Group's market transactions on any single day.

(c) *Master netting arrangements*

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities on statement of financial position as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement is affected by credit risk.

### 3.1.3 Impairment and provisioning policies

The internal rating systems described in Note 3.1.1 focus more on credit-quality mapping from the inception of lending activities. In contrast, impairment allowances are recognised for financial reporting purposes are the losses that have been incurred at the reporting date based on objective evidence of impairment (see Note 2(2.6)). Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The internal rating system assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral;

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.3 *Impairment and provisioning policies* *(Continued)*

The Group's policy requires the review of individual financial assets that have objective evidence of impairment at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually impaired financial assets. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipt for that individual account.

Collectively assessed impairment allowances are provided for: losses that have been incurred but have not yet been identified, by using the available historical experience, judgment and statistical techniques.

### 3.1.4 *Maximum exposure to credit risk before collateral held or other credit enhancements:*

***Group***

| | As at 31 December | |
|---|---|---|
| | 2009 | 2008 |
| **Assets** | | |
| Balances with central banks | 423,199 | 350,671 |
| Due from other banks and financial institutions | 222,671 | 331,511 |
| Held for trading — debt securities and derivative financial instruments | 28,790 | 26,926 |
| Loans and advances to customers | | |
| — Loans to corporate entities | 1,495,864 | 1,097,191 |
| — Loans to individuals | 305,674 | 201,585 |
| Investment securities — loans and receivables | 107,604 | 90,903 |
| Investment securities — available-for-sale-debt securities | 129,777 | 140,166 |
| Investment securities — held-to-maturity | 509,179 | 367,878 |
| Other financial assets | 32,449 | 21,935 |
| | 3,255,207 | 2,628,766 |
| **Off-statement exposures** | | |
| Financial guarantees, acceptances and letters of credit | 448,680 | 374,381 |
| Other credit related commitments | 164,704 | 102,501 |
| | 613,384 | 476,882 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.4 *Maximum exposure to credit risk before collateral held or other credit enhancements: (Continued)*

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| Balances with central banks | 423,193 | 350,651 |
| Due from other banks and financial institutions | 221,113 | 330,861 |
| Held for trading — debt securities and derivative financial instruments | 28,627 | 26,735 |
| Loans and advances to customers | | |
| — Loans to corporate entities | 1,497,595 | 1,097,959 |
| — Loans to individuals | 304,401 | 201,406 |
| Investment securities — loans and receivables | 107,419 | 90,467 |
| Investment securities — available-for-sale-debt securities | 129,777 | 140,161 |
| Investment securities — held-to-maturity | 509,020 | 367,799 |
| Other financial assets | 16,316 | 14,005 |
| | 3,237,461 | 2,620,044 |
| **Off-statement exposures** | | |
| Financial guarantees, acceptances and letters of credit | 448,680 | 374,381 |
| Other credit related commitments | 164,704 | 102,501 |
| | 613,384 | 476,882 |

The above table represents a worse case scenario of credit risk exposure to the Group at 31 December 2009 and 2008, without taking account of any related collateral or other credit enhancements. For on statement assets, the exposures above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 62% of the total on statement exposure is derived from loans and advances to customers (2008: 57%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group from its loan and advances based on the following:

- 94% of the corporate loan and advance portfolio is categorised in grade 1–5 of the internal rating system (2008: 91%);
- Mortgage loans, which represent the biggest group in the individual portfolio, are backed by collateral;
- 98% of the loans and advances portfolio are considered to be neither past due nor impaired (2008: 97%);
- The impaired loan and advances balance is 1.36% of loans and advances.

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### *3.1.5 Loans and advances*

Loans and advances are summarised as follows:

***Group***

| | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | Loans and advances to customers | Due from other banks and financial institution | Loans and advances to customers | Due from other banks and financial institution |
| Neither past due nor impaired | 1,807,689 | 222,658 | 1,293,318 | 331,498 |
| Past due but not impaired | 6,616 | 13 | 9,752 | 13 |
| Individually impaired | 25,009 | — | 25,520 | 213 |
| **Gross** | 1,839,314 | 222,671 | 1,328,590 | 331,724 |
| Less: Collective impairment allowances | (22,778) | — | (13,431) | — |
| Individual impairment allowances | (14,998) | — | (16,383) | (213) |
| **Net** | 1,801,538 | 222,671 | 1,298,776 | 331,511 |

***Bank***

| | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | Loans and advances to customers | Due from other banks and financial institution | Loans and advances to customers | Due from other banks and financial institution |
| Neither past due nor impaired | 1,808,146 | 221,100 | 1,293,907 | 330,848 |
| Past due but not impaired | 6,616 | 13 | 9,752 | 13 |
| Individually impaired | 25,009 | — | 25,520 | 213 |
| **Gross** | 1,839,771 | 221,113 | 1,329,179 | 331,074 |
| Less: Collective impairment allowances | (22,777) | — | (13,431) | — |
| Individual impairment allowances | (14,998) | — | (16,383) | (213) |
| **Net** | 1,801,996 | 221,113 | 1,299,365 | 330,861 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.5 Loans and advances *(Continued)*

The total impairment allowances for loans and advances of the Group are RMB37,776 million (2008: RMB29,814 million) of which RMB14,998 million (2008: RMB16,383 million) represents those for individually impaired loans and the remaining amount of RMB22,778 million (2008: RMB13,431 million) represents the portfolio allowance. Further information of the impairment allowances for loans and advances to banks and to customers is provided in Note 20.

During the year ended 31 December 2009, the Group's total loans and advances increased by 38% as a result of the expansion of the lending business, especially in Mainland China. When entering into new markets or new industries, in order to minimize the potential increase of credit risk exposure, the Group focused more on the business with large corporate enterprises or other financial institutions with good credit rating or retail customers with sufficient collateral.

(a) *Loans and advances neither past due nor impaired*

The Group monitors the credit risk of corporate loans and advances neither past due nor impaired using its internal grading system on individual customers' basis.

***Group***

**31 December 2009**

| | Grade 1–5 | Grade 6–7 | Grade 8–10 | Total |
|---|---|---|---|---|
| Corporate entities | | | | |
| — Commercial loans | 1,286,269 | 56,799 | 744 | 1,343,812 |
| — Trade finance | 158,053 | 1,897 | 375 | 160,325 |
| **Total** | 1,444,322 | 58,696 | 1,119 | 1,504,137 |
| Individual | | | | |
| — Mortgages | | | | 195,558 |
| — Credit Cards | | | | 28,508 |
| — Other | | | | 79,486 |
| **Total** | | | | 303,552 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.5 Loans and advances *(Continued)*

(a) *Loans and advances neither past due nor impaired (Continued)*

***Bank***

**31 December 2009**

| | Grade 1–5 | Grade 6–7 | Grade 8–10 | Total |
|---|---|---|---|---|
| Corporate entities | | | | |
| — Commercial loans | 1,287,999 | 56,799 | 744 | 1,345,542 |
| — Trade finance | 158,053 | 1,897 | 375 | 160,325 |
| **Total** | 1,446,052 | 58,696 | 1,119 | 1,505,867 |
| Individual | | | | |
| — Mortgages | | | | 194,285 |
| — Credit Cards | | | | 28,508 |
| — Other | | | | 79,486 |
| **Total** | | | | 302,279 |

***Group***

31 December 2008

| | Grade 1–5 | Grade 6–7 | Grade 8–10 | Total |
|---|---|---|---|---|
| Corporate entities | | | | |
| — Commercial loans | 929,692 | 67,647 | 978 | 998,317 |
| — Trade finance | 96,712 | 1,577 | 35 | 98,324 |
| **Total** | 1,026,404 | 69,224 | 1,013 | 1,096,641 |
| Individual | | | | |
| — Mortgages | | | | 119,753 |
| — Credit Cards | | | | 23,947 |
| — Other | | | | 52,977 |
| **Total** | | | | 196,677 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.5 Loans and advances *(Continued)*

(a) *Loans and advances neither past due nor impaired (Continued)*

***Bank***

31 December 2008

| | Grade 1–5 | Grade 6–7 | Grade 8–10 | Total |
|---|---|---|---|---|
| Corporate entities | | | | |
| — Commercial loans | 930,460 | 67,647 | 978 | 999,085 |
| — Trade finance | 96,712 | 1,577 | 35 | 98,324 |
| **Total** | 1,027,172 | 69,224 | 1,013 | 1,097,409 |
| Individual | | | | |
| — Mortgages | | | | 119,753 |
| — Credit Cards | | | | 23,947 |
| — Other | | | | 52,798 |
| **Total** | | | | 196,498 |

(b) *Loans and advances past due but not impaired*

Gross amount of loans and advances by customers' class that were past due but not impaired are as follows:

***Group and Bank***

**31 December 2009**

| | Past due up to 30 days | Past due 30–60 days | Past due 60–90 days | Past due over 90 days | Total | Fair value of collateral |
|---|---|---|---|---|---|---|
| Corporate entities | | | | | | |
| — Commercial loans | 311 | 235 | 61 | 2,063 | 2,670 | 4,955 |
| Individual | | | | | | |
| — Mortgages | 1,240 | 398 | 250 | 391 | 2,279 | 4,759 |
| — Credit Cards | 744 | 170 | — | — | 914 | — |
| — Other | 394 | 132 | 83 | 144 | 753 | 1,573 |
| **Total** | 2,689 | 935 | 394 | 2,598 | 6,616 | 11,287 |
| Due from other banks and financial institutions | — | — | — | 13 | 13 | 16 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.5 Loans and advances *(Continued)*

(b) *Loans and advances past due but not impaired (Continued)*

**Group and Bank**

31 December 2008

| | Past due up to 30 days | Past due 30–60 days | Past due 60–90 days | Past due over 90 days | Total | Fair value of collateral |
|---|---|---|---|---|---|---|
| Corporate entities | | | | | | |
| — Commercial loans | 663 | 861 | 170 | 2,595 | 4,289 | 3,127 |
| Individual | | | | | | |
| — Mortgages | 1,607 | 820 | 374 | 488 | 3,289 | 6,261 |
| — Credit Cards | 664 | 216 | — | — | 880 | — |
| — Other | 625 | 238 | 115 | 316 | 1,294 | 2,974 |
| **Total** | 3,559 | 2,135 | 659 | 3,399 | 9,752 | 12,362 |
| Due from other banks and financial institutions | — | — | — | 13 | 13 | 16 |

The fair value of collaterals was estimated by management based on the latest available external valuations and adjusted by the current realization experience and market situation.

(c) *Loans and advances individually impaired*

The individually impaired loans and advances to customers before taking into consideration the collateral held is RMB25,009 million (2008: RMB25,520 million).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

**Group and Bank**

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Corporate entities | 21,869 | 22,602 |
| Individual | 3,140 | 2,918 |
| Individually impaired loans | 25,009 | 25,520 |
| Fair value of collaterals | 7,372 | 6,791 |

No individually impaired due from other banks and financial institutions is held by the Group as at 31 December 2009 (2008: RMB213 million).

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### ***3.1.5 Loans and advances*** *(Continued)*

*(d) Loans and advances renegotiated*

Restructuring activities include approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue to be made. These policies are under continuous review. Restructuring is most commonly applied to term loans, in particular mid-term and long-term loans. Renegotiated loans that would otherwise be past due or impaired totaled RMB3,396 million as at 31 December 2009 (2008: RMB5,315 million).

***Group and Bank***

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Corporate entities | 3,396 | 5,315 |

*(e) Concentration risk analysis for loans and advances to customers (gross) by geographic sectors:*

***Group***

| | 31 December 2009 | % | 31 December 2008 | % |
|---|---|---|---|---|
| Domestic regions | | | | |
| — Jiangsu | 241,030 | 12 | 161,873 | 12 |
| — Beijing | 201,128 | 11 | 173,332 | 13 |
| — Shanghai | 197,012 | 11 | 146,712 | 11 |
| — Guangdong | 157,044 | 8 | 116,286 | 9 |
| — Zhejiang | 152,968 | 8 | 113,840 | 9 |
| — Shandong | 85,074 | 5 | 64,410 | 5 |
| — Sichuan | 66,955 | 4 | 44,069 | 3 |
| — Henan | 65,584 | 4 | 46,670 | 4 |
| — Hubei | 64,817 | 4 | 45,103 | 3 |
| — Anhui | 47,395 | 3 | 30,390 | 2 |
| — Others | 459,546 | 25 | 312,061 | 24 |
| Total domestic regions | 1,738,553 | 95 | 1,254,746 | 95 |
| Hong Kong, Macao and overseas countries | 100,761 | 5 | 73,844 | 5 |
| Gross amount of loans and advances before allowance for impairment | 1,839,314 | 100 | 1,328,590 | 100 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.5 Loans and advances *(Continued)*

(e) *Concentration risk analysis for loans and advances to customers (gross) by geographic sectors: (Continued)*

***Bank***

| | 31 December 2009 | % | 31 December 2008 | % |
|---|---|---|---|---|
| Domestic regions | | | | |
| — Jiangsu | 241,030 | 12 | 161,873 | 12 |
| — Beijing | 201,128 | 11 | 173,332 | 13 |
| — Shanghai | 197,012 | 11 | 146,712 | 11 |
| — Guangdong | 157,044 | 8 | 116,286 | 9 |
| — Zhejiang | 152,968 | 8 | 113,840 | 9 |
| — Shandong | 85,074 | 5 | 64,410 | 5 |
| — Sichuan | 66,845 | 4 | 44,066 | 3 |
| — Henan | 65,504 | 4 | 46,670 | 4 |
| — Hubei | 64,817 | 4 | 45,003 | 3 |
| — Anhui | 47,395 | 3 | 30,390 | 2 |
| — Others | 459,546 | 25 | 312,061 | 24 |
| Total domestic regions | 1,738,363 | 95 | 1,254,643 | 95 |
| Hong Kong, Macao and overseas countries | 101,408 | 5 | 74,536 | 5 |
| Gross amount of loans and advances before allowance for impairment | 1,839,771 | 100 | 1,329,179 | 100 |

A geographical region is reported where it contributes 3% and more of the relevant disclosure items.

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.5 Loans and advances *(Continued)*

(f) *Industry analysis*

Concentration risks analysis for loans and advances to customers (gross) by economic sectors:

***Group***

| | 31 December 2009 | % | 31 December 2008 | % |
|---|---|---|---|---|
| **Corporate loans** | | | | |
| Manufacturing | | | | |
| — Petroleum and chemical | 73,062 | 4 | 60,331 | 5 |
| — Electronics | 23,992 | 1 | 23,680 | 2 |
| — Steel smelting and processing | 40,109 | 2 | 33,766 | 2 |
| — Machinery | 76,532 | 4 | 67,141 | 5 |
| — Textile | 24,163 | 1 | 22,102 | 2 |
| — Other manufacturing | 140,836 | 8 | 114,481 | 9 |
| Transportation | 226,757 | 12 | 148,935 | 10 |
| Utilities | 183,704 | 10 | 92,207 | 7 |
| Wholesale and retail | 145,278 | 8 | 108,559 | 8 |
| Real estate | 129,325 | 7 | 88,568 | 6 |
| Electricity | 119,824 | 7 | 105,541 | 8 |
| Services | 81,699 | 4 | 49,990 | 4 |
| Construction | 55,387 | 3 | 52,261 | 4 |
| Energy and mining | 31,230 | 2 | 20,279 | 2 |
| Financial institutions | 22,853 | 1 | 10,164 | 1 |
| Recreation and entertainment | 19,485 | 1 | 20,560 | 2 |
| Accommodation and catering | 13,163 | 1 | 13,977 | 1 |
| IT and telecommunication service | 8,213 | — | 8,200 | 1 |
| Others | 11,192 | 1 | 13,057 | 1 |
| **Total corporate loans** | 1,426,804 | 77 | 1,053,799 | 80 |
| Mortgage loans | 198,695 | 11 | 124,555 | 9 |
| Credit card advances | 30,693 | 2 | 20,453 | 2 |
| Medium-term and long-term working capital loans | 27,573 | 2 | 23,873 | 2 |
| Short-term working capital loans | 21,482 | 1 | 16,883 | 1 |
| Car loans | 4,894 | — | 4,271 | — |
| Others | 27,301 | 1 | 15,023 | 1 |
| Total individual loans | 310,638 | 17 | 205,058 | 15 |
| Discounted bills | 101,872 | 6 | 69,733 | 5 |
| Gross amount of loans and advances before allowance for impairment | 1,839,314 | 100 | 1,328,590 | 100 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.5 Loans and advances *(Continued)*

(f) *Industry analysis (Continued)*

**Bank**

| | 31 December 2009 | % | 31 December 2008 | % |
|---|---|---|---|---|
| **Corporate loans** | | | | |
| Manufacturing | | | | |
| — Petroleum and chemical | 73,062 | 4 | 60,331 | 5 |
| — Electronics | 23,992 | 1 | 23,680 | 2 |
| — Steel smelting and processing | 40,109 | 2 | 33,766 | 2 |
| — Machinery | 76,523 | 4 | 67,141 | 5 |
| — Textile | 24,163 | 1 | 22,102 | 2 |
| — Other manufacturing | 140,805 | 8 | 114,477 | 9 |
| Transportation | 226,757 | 12 | 148,935 | 10 |
| Utilities | 183,704 | 10 | 92,207 | 7 |
| Wholesale and retail | 144,992 | 8 | 108,559 | 8 |
| Real estate | 130,035 | 7 | 89,179 | 6 |
| Electricity | 119,824 | 7 | 105,541 | 8 |
| Services | 81,668 | 4 | 49,990 | 4 |
| Construction | 55,296 | 3 | 52,261 | 4 |
| Energy and Mining | 31,230 | 2 | 20,279 | 2 |
| Financial institutions | 24,186 | 1 | 10,164 | 1 |
| Recreation and entertainment | 19,485 | 1 | 20,560 | 2 |
| Accommodation and catering | 13,163 | 1 | 13,977 | 1 |
| IT and telecommunication service | 8,213 | — | 8,200 | 1 |
| Others | 11,327 | 1 | 13,218 | 1 |
| **Total corporate loans** | 1,428,534 | 77 | 1,054,567 | 80 |
| Mortgage loans | 197,422 | 11 | 124,555 | 9 |
| Credit card advances | 30,693 | 2 | 20,453 | 2 |
| Medium-term and long-term working capital loans | 27,573 | 2 | 23,873 | 2 |
| Short-term working capital loans | 21,482 | 1 | 16,883 | 1 |
| Car loans | 4,894 | — | 4,271 | — |
| Others | 27,301 | 1 | 14,844 | 1 |
| Total individual loans | 309,365 | 17 | 204,879 | 15 |
| Discounted bills | 101,872 | 6 | 69,733 | 5 |
| Gross amount of loans and advances before allowance for impairment | 1,839,771 | 100 | 1,329,179 | 100 |

The economic sector risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.5 Loans and advances *(Continued)*

(g) *Loans and advances to customers analysed by customer types (gross):*

***Group***

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| **Domestic** | | |
| Corporate entities | | |
| State owned entities | 502,787 | 338,387 |
| Collective owned entities | 8,768 | 7,459 |
| Private unlimited companies | 79,766 | 56,782 |
| Private limited companies | 461,671 | 337,754 |
| Joint stock companies | 130,738 | 117,741 |
| Foreign invested enterprises | 135,537 | 124,496 |
| Other domestic entities | 22,548 | 13,498 |
| | 1,341,815 | 996,117 |
| Individual | 294,866 | 190,904 |
| | 1,636,681 | 1,187,021 |
| **Hong Kong, Macao and Overseas** | | |
| Corporate entities | 84,989 | 57,682 |
| Individual | 15,772 | 14,154 |
| | 100,761 | 71,836 |
| Discounted bills | 101,872 | 69,733 |
| Gross amount of loans and advances before allowance for impairment | 1,839,314 | 1,328,590 |

***Bank***

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| **Domestic** | | |
| Corporate entities | | |
| State owned entities | 502,787 | 338,387 |
| Collective owned entities | 8,768 | 7,459 |
| Private unlimited companies | 79,766 | 56,782 |
| Private limited companies | 461,496 | 337,651 |
| Joint stock companies | 130,738 | 117,741 |
| Foreign invested enterprises | 135,537 | 124,496 |
| Other domestic entities | 22,548 | 13,498 |
| | 1,341,640 | 996,014 |
| Individual | 294,851 | 190,904 |
| | 1,636,491 | 1,186,918 |
| **Hong Kong, Macao and Overseas** | | |
| Corporate entities | 86,894 | 58,553 |
| Individual | 14,514 | 13,975 |
| | 101,408 | 72,528 |
| Discounted bills | 101,872 | 69,733 |
| Gross amount of loans and advances before allowance for impairment | 1,839,771 | 1,329,179 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### *3.1.6 Investment securities*

The table below presents an analysis of investment securities, excluding derivatives, by independent rating agencies designation as at 31 December 2009 and 2008:

***Group***

**2009**

| | Investment securities — loans and receivables | Investment securities — available-for-sale ('AFS')-debt securities | Investment securities — held-to-maturity ('HTM') | Held for trading — debt securities | Total |
|---|---|---|---|---|---|
| **RMB securities** | | | | | |
| AAA | 25 | 52,886 | 109,731 | 7,086 | 169,728 |
| AA- to AA+ | 400 | 4,493 | 11,672 | 693 | 17,258 |
| A- to A+ | — | — | 458 | 1 | 459 |
| BBB- to BBB+ | — | — | 20 | 2 | 22 |
| Unrated(1) | 106,734 | 37,156 | 384,568 | 8,860 | 537,318 |
| Sub-total | 107,159 | 94,535 | 506,449 | 16,642 | 724,785 |
| **Foreign currency securities** | | | | | |
| AAA | — | 11,048 | 814 | 3,482 | 15,344 |
| AA- to AA+ | — | 4,937 | 180 | 1,044 | 6,161 |
| A- to A+ | — | 9,581 | 369 | 3,998 | 13,948 |
| BBB- to BBB+ | — | 210 | 36 | 202 | 448 |
| Unrated(1) | 445 | 9,466 | 1,331 | 1,052 | 12,294 |
| Sub-total | 445 | 35,242 | 2,730 | 9,778 | 48,195 |
| **Total** | 107,604 | 129,777 | 509,179 | 26,420 | 772,980 |

***Bank***

**2009**

| | Investment securities — loans and receivables | Investment securities — available-for-sale ('AFS')-debt securities | Investment securities — held-to-maturity ('HTM') | Held for trading — debt securities | Total |
|---|---|---|---|---|---|
| **RMB securities** | | | | | |
| AAA | 25 | 52,886 | 109,691 | 7,086 | 169,688 |
| AA- to AA+ | 400 | 4,493 | 11,672 | 693 | 17,258 |
| A- to A+ | — | — | 459 | 1 | 460 |
| BBB- to BBB+ | — | — | 20 | 2 | 22 |
| Unrated(1) | 106,549 | 37,339 | 384,566 | 8,860 | 537,314 |
| Sub-total | 106,974 | 94,718 | 506,408 | 16,642 | 724,742 |
| **Foreign currency securities** | | | | | |
| AAA | — | 11,048 | 814 | 3,482 | 15,344 |
| AA- to AA+ | — | 4,937 | 164 | 998 | 6,099 |
| A- to A+ | — | 9,581 | 320 | 3,981 | 13,882 |
| BBB- to BBB+ | — | 210 | — | 202 | 412 |
| Unrated(1) | 445 | 9,283 | 1,314 | 952 | 11,994 |
| Sub-total | 445 | 35,059 | 2,612 | 9,615 | 47,731 |
| **Total** | 107,419 | 129,777 | 509,020 | 26,257 | 772,473 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### 3.1.6 Investment securities *(Continued)*

**Group**

2008

| | Investment securities — loans and receivables | Investment securities — available-for-sale ('AFS')-debt securities | Investment securities — held-to-maturity ('HTM') | Held for trading — debt securities | Total |
|---|---|---|---|---|---|
| **RMB securities** | | | | | |
| AAA | 25 | 34,734 | 39,783 | 10,847 | 85,389 |
| AA- to AA+ | 400 | 112 | 5,707 | 55 | 6,274 |
| A- to A+ | — | 384 | 325 | 2 | 711 |
| BBB- to BBB+ | — | 20 | 20 | 45 | 85 |
| Unrated[1] | 90,341 | 76,960 | 320,409 | 7,561 | 495,271 |
| Sub-total | 90,766 | 112,210 | 366,244 | 18,510 | 587,730 |
| **Foreign currency securities** | | | | | |
| AAA | 137 | 6,378 | 111 | 643 | 7,269 |
| AA- to AA+ | — | 7,409 | 147 | 320 | 7,876 |
| A- to A+ | — | 13,145 | 1,273 | 2,008 | 16,426 |
| BBB- to BBB+ | — | 408 | 7 | 331 | 746 |
| Unrated[1] | — | 616 | 96 | 458 | 1,170 |
| Sub-total | 137 | 27,956 | 1,634 | 3,760 | 33,487 |
| **Total** | 90,903 | 140,166 | 367,878 | 22,270 | 621,217 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### ***3.1.6 Investment securities*** *(Continued)*

***Bank***

2008

| | Investment securities — loans and receivables | Investment securities — available-for-sale ('AFS')-debt securities | Investment securities — held-to-maturity ('HTM') | Held for trading — debt securities | Total |
|---|---|---|---|---|---|
| **RMB securities** | | | | | |
| AAA | 25 | 34,734 | 39,783 | 10,847 | 85,389 |
| AA- to AA+ | 400 | 112 | 5,707 | 55 | 6,274 |
| A- to A+ | — | 384 | 325 | 2 | 711 |
| BBB- to BBB+ | — | 20 | 20 | 45 | 85 |
| Unrated(1) | 89,905 | 76,928 | 320,409 | 7,561 | 494,803 |
| Sub-total | 90,330 | 112,178 | 366,244 | 18,510 | 587,262 |
| **Foreign currency securities** | | | | | |
| AAA | 137 | 6,378 | 111 | 643 | 7,269 |
| AA- to AA+ | — | 7,409 | 147 | 320 | 7,876 |
| A- to A+ | — | 13,145 | 1,263 | 2,008 | 16,416 |
| BBB- to BBB+ | — | 408 | — | 331 | 739 |
| Unrated(1) | — | 643 | 34 | 267 | 944 |
| Sub-total | 137 | 27,983 | 1,555 | 3,569 | 33,244 |
| **Total** | 90,467 | 140,161 | 367,799 | 22,079 | 620,506 |

(1) These mainly represent investment and trading securities issued by PRC Ministry of Finance, central bank, policy banks and other oversea financial institutions which are not rated by independent rating agencies.

There are no overdue debt securities held as at 31 December 2009 (2008: RMB99 million). The total gross amount of individually impaired debt securities as at 31 December 2009 is RMB1,274 million (2008: RMB2,317 million). No collateral is held by the Group in respect of these securities, and the impairment provision is RMB1,274 million as at 31 December 2009 (2008: RMB1,501 million).

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### *3.1.7 Foreclosed assets*

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Residential properties | 24 | 6 |
| Business properties | 455 | 317 |
| Others | 232 | 58 |
| **Total** | 711 | 381 |

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy repossessed properties for its business use. Repossessed assets are classified in the statement of financial position as other assets.

### *3.1.8 Concentration risk analysis for financial assets with credit risk exposure:*

Geographical sectors

***Group***

| | As at 31 December 2009 | | | |
|---|---|---|---|---|
| | Mainland China | Hong Kong | Others | Total |
| **Financial Assets** | | | | |
| Balances with central banks | 396,755 | 19,671 | 6,773 | 423,199 |
| Due from other banks and financial institutions | 202,250 | 15,362 | 5,059 | 222,671 |
| Held for trading — debt securities | 18,299 | 9,599 | 892 | 28,790 |
| Loans and advances to customers | 1,701,863 | 64,196 | 35,479 | 1,801,538 |
| Investment securities — loans and receivables | 107,604 | — | — | 107,604 |
| Investment securities — available-for-sale-debt securities | 110,242 | 11,212 | 8,323 | 129,777 |
| Investment securities — held-to-maturity | 506,654 | 447 | 2,078 | 509,179 |
| Other financial assets | 30,832 | 1,451 | 166 | 32,449 |
| | 3,074,499 | 121,938 | 58,770 | 3,255,207 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Credit risk *(Continued)*

### ***3.1.8 Concentration risk analysis for financial assets with credit risk exposure:*** *(Continued)*

Geographical sectors *(Continued)*

***Bank***

| | As at 31 December 2009 | | | |
|---|---|---|---|---|
| | Mainland China | Hong Kong | Others | Total |
| **Financial Assets** | | | | |
| Balances with central banks | 385,219 | 31,201 | 6,773 | 423,193 |
| Due from other banks and financial institutions | 202,052 | 14,002 | 5,059 | 221,113 |
| Held for trading — debt securities | 18,279 | 9,456 | 892 | 28,627 |
| Loans and advances to customers | 1,701,674 | 64,843 | 35,479 | 1,801,996 |
| Investment securities — loans and receivables | 107,419 | — | — | 107,419 |
| Investment securities — available-for-sale-debt securities | 110,243 | 11,211 | 8,323 | 129,777 |
| Investment securities — held-to-maturity | 506,614 | 328 | 2,078 | 509,020 |
| Other financial assets | 15,319 | 831 | 166 | 16,316 |
| | 3,046,819 | 131,872 | 58,770 | 3,237,461 |

***Group***

| | As at 31 December 2008 | | | |
|---|---|---|---|---|
| | Mainland China | Hong Kong | Others | Total |
| **Financial Assets** | | | | |
| Balances with central banks | 350,506 | 146 | 19 | 350,671 |
| Due from other banks and financial institutions | 293,975 | 28,914 | 8,622 | 331,511 |
| Held for trading — debt securities and derivative financial instruments | 22,357 | 3,370 | 1,199 | 26,926 |
| Loans and advances to customers | 1,225,993 | 56,460 | 16,323 | 1,298,776 |
| Investment securities — loans and receivables | 90,903 | — | — | 90,903 |
| Investment securities — available-for-sale-debt instrument | 122,350 | 12,982 | 4,834 | 140,166 |
| Investment securities — held-to-maturity | 366,541 | 79 | 1,258 | 367,878 |
| Other financial assets | 20,263 | 1,399 | 273 | 21,935 |
| | 2,492,888 | 103,350 | 32,528 | 2,628,766 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Credit risk *(Continued)*

#### 3.1.8 Concentration risk analysis for financial assets with credit risk exposure: *(Continued)*

Geographical sectors *(Continued)*

***Bank***

| | As at 31 December 2008 | | | |
|---|---|---|---|---|
| | Mainland China | Hong Kong | Others | Total |
| **Financial Assets** | | | | |
| Balances with central banks | 339,277 | 11,355 | 19 | 350,651 |
| Due from other banks and financial institutions | 293,820 | 28,419 | 8,622 | 330,861 |
| Held for trading — debt securities and derivative financial instruments | 22,350 | 3,186 | 1,199 | 26,735 |
| Loans and advances to customers | 1,225,890 | 57,152 | 16,323 | 1,299,365 |
| Investment securities — loans and receivables | 90,467 | — | — | 90,467 |
| Investment securities — available-for-sale-debt instrument | 122,346 | 12,981 | 4,834 | 140,161 |
| Investment securities — held-to-maturity | 366,541 | — | 1,258 | 367,799 |
| Other financial assets | 12,218 | 1,514 | 273 | 14,005 |
| | 2,472,909 | 114,607 | 32,528 | 2,620,044 |

The above analysis is based on the country/region in which the counter-parties are located.

### 3.2 Market risk

#### 3.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates and prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or non-trading portfolios.

In accordance with the requirements of the China Banking Regulatory Commission (CBRC), the Group categorizes its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either with trading intent or in order to economically hedge other elements of the trading book or the banking book. The banking book consists of the investment book through which the Group purchases financial instruments with excess funds and other financial instruments that are not captured in trading book.

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Market risk *(Continued)*

### 3.2.1 Overview *(Continued)*

The Group's risk management committee under Board of Directors and senior management of the Bank approve the overall market risk policies and procedures. The Market Risk Management team within Risk Management Department monitors the Group's market risk exposure. It also reports the risk exposures and interest rate sensitivity to senior management on a quarterly basis. The senior management of the Group approves the limits for foreign currency exposures and the limits for the trading book.

As part of its management of market risk, the Group enters into interest rate swaps to match the interest rate risk associated with the structured deposits and fixed-rate long-term debt securities.

The major measurement techniques used to measure and control market risk are outlined below.

### 3.2.2 Sensitivity tests

The Group performs interest rate sensitivity analysis on net interest income and reported equity for the Group by measuring the impact of a change in net interest income and equity, not taking customer behavior and prepayment option into consideration. On an assumption of a parallel shift of 100 basis points in RMB, US dollar and Hong Kong dollar, the Group calculates the change in net interest income for the year and reported equity on a monthly basis.

The table below illustrates the potential impact of a simple 100 basis point move on the financial position of the Group at 31 December 2009 and 2008 on the net interest income of the coming year.

| | Net interest income | |
|---|---|---|
| | 31 December 2009 | 31 December 2008 |
| +100 basis point parallel move in all yield curves | 5,387 | 5,175 |
| –100 basis point parallel move in all yield curves | (5,387) | (5,175) |

The table below illustrates the potential impact of a 100 basis point move on the equity of the Group on the reported equity.

| | Change of Equity | |
|---|---|---|
| | 31 December 2009 | 31 December 2008 |
| +100 basis point parallel move in all yield curves | (1,951) | (1,727) |
| –100 basis point parallel move in all yield curves | 2,055 | 1,846 |

The interest rate sensitivities set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the effect on projected net interest income and reported equity of the pro forma movements of the yield curve on the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by the Group to mitigate the impact of this interest rate change. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net interest income due to changes in certain rates while others remain unchanged. The projections make other simplifying assumptions too, including that all positions run to maturity.

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Market risk *(Continued)*

### 3.2.2 ***Sensitivity tests*** *(Continued)*

The Group performs exchange rate sensitivity analysis on net profit and reported equity for the Group by measuring the impact of a change in exchange rate on financial position. On an assumption of an appreciation of RMB against US dollar, HK dollar and other currencies (pegged with US dollar) by 5%, the Group calculates the change in net profit and reported equity for the year on a monthly basis.

The table below illustrates the potential impact of an appreciation of RMB against US dollar, HK dollar and other currencies by 5% on the Group's net profit.

***Group***

| | Net Profit/(Loss) | |
|---|---|---|
| | 2009 | 2008 |
| +5% appreciation of RMB | (747) | (885) |
| –5% appreciation of RMB | 747 | 885 |

The table below illustrates the potential impact of an appreciation of RMB against US dollar, HK dollar and other currencies by 5% on the Group's reported equity.

***Group***

| | Change of Equity | |
|---|---|---|
| | 31 December 2009 | 31 December 2008 |
| +5% appreciation of RMB | (496) | (196) |
| –5% appreciation of RMB | 496 | 196 |

### 3.2.3 ***Interest rate risk***

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Group operates its business predominantly in Mainland China under the interest rate scheme regulated by the PBOC. According to the PBOC regulations, there is no ceiling for loan interest rates, whilst the floor for loan interest rates is 10% below the stipulated rates. It is normal practice for the interest rates of both interest-bearing assets and liabilities to move in the same direction. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit related commitments based upon basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in the future.

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Market risk *(Continued)*

### ***3.2.3 Interest rate risk*** *(Continued)*

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of financial guarantees and credit related commitments businesses which are not based upon these basic interest rates is not expected to be significant.

The interest rate for discounted bills is determined by reference to the PBOC/market re-discount interest rate. However, it is generally lower than the interest rate for a loan with same term.

The tables below summarise the Group's exposures to interest rate risks. The tables show the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

***Group***

| | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2009** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 403,527 | – | – | – | – | 31,469 | 434,996 |
| Due from other banks and financial institutions | 126,424 | 27,095 | 69,139 | – | – | 13 | 222,671 |
| Financial assets held for trading | 827 | 2,836 | 3,535 | 16,210 | 3,012 | 2,834 | 29,254 |
| Loans and advances to customers | 627,070 | 259,547 | 841,820 | 53,392 | 19,709 | – | 1,801,538 |
| Investment securities | | | | | | | |
| – loans and receivables | 10,575 | 19,512 | 64,940 | 10,502 | 2,075 | – | 107,604 |
| – available-for-sale | 7,495 | 19,076 | 42,745 | 43,586 | 16,875 | 2,317 | 132,094 |
| – held-to-maturity | 17,663 | 23,509 | 94,913 | 242,682 | 130,412 | – | 509,179 |
| Other assets, including deferred income tax assets | 7,815 | 1,347 | 5,777 | – | – | 56,862 | 71,801 |
| **Total assets** | 1,201,396 | 352,922 | 1,122,869 | 366,372 | 172,083 | 93,495 | 3,309,137 |
| **Liabilities** | | | | | | | |
| Due to other banks and financial institutions | (359,041) | (100,001) | (83,860) | (107,870) | (2,400) | – | (653,172) |
| Financial liabilities held for trading | (1,826) | (3,552) | (9) | (1,081) | – | (2,907) | (9,375) |
| Due to customers | (1,515,361) | (254,450) | (478,040) | (111,049) | – | (13,155) | (2,372,055) |
| Other liabilities, including deferred income tax liabilities | – | – | (3,056) | (20,689) | (31,410) | (54,955) | (110,110) |
| **Total liabilities** | (1,876,228) | (358,003) | (564,965) | (240,689) | (33,810) | (71,017) | (3,144,712) |
| **Total interest sensitivity gap** | (674,832) | (5,081) | 557,904 | 125,683 | 138,273 | 22,478 | 164,425 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Market risk *(Continued)*

### ***3.2.3 Interest rate risk*** *(Continued)*

***Bank***

| | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2009** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 403,521 | – | – | – | – | 31,468 | 434,989 |
| Due from other banks and financial institutions | 124,866 | 27,095 | 69,139 | – | – | 13 | 221,113 |
| Financial assets held for trading | 827 | 2,836 | 3,535 | 16,092 | 2,967 | 2,370 | 28,627 |
| Loans and advances to customers | 628,376 | 258,186 | 842,334 | 53,391 | 19,709 | – | 1,801,996 |
| Investment securities | | | | | | | |
| – loans and receivables | 10,575 | 19,512 | 64,871 | 10,386 | 2,075 | – | 107,419 |
| – available-for-sale | 7,495 | 19,076 | 42,745 | 43,586 | 16,875 | 1,391 | 131,168 |
| – held-to-maturity | 17,663 | 23,507 | 94,869 | 242,609 | 130,372 | – | 509,020 |
| Investments in subsidiaries | – | – | – | – | – | 5,660 | 5,660 |
| Other assets, including deferred income tax assets | – | – | – | – | – | 54,916 | 54,916 |
| **Total assets** | 1,193,323 | 350,212 | 1,117,493 | 366,064 | 171,998 | 95,818 | 3,294,908 |
| **Liabilities** | | | | | | | |
| Due to other banks and financial institutions | (358,575) | (100,239) | (73,530) | (107,870) | (2,400) | – | (642,614) |
| Financial liabilities held for trading | (1,826) | (3,552) | (9) | (1,081) | – | (2,907) | (9,375) |
| Due to customers | (1,515,948) | (254,488) | (478,045) | (111,123) | – | (13,155) | (2,372,759) |
| Other liabilities, including deferred income tax liabilities | – | – | (3,056) | (20,689) | (31,410) | (51,718) | (106,873) |
| **Total liabilities** | (1,876,349) | (358,279) | (554,640) | (240,763) | (33,810) | (67,780) | (3,131,621) |
| **Total interest sensitivity gap** | (683,026) | (8,067) | 562,853 | 125,301 | 138,188 | 28,038 | 163,287 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Market risk *(Continued)*

### ***3.2.3 Interest rate risk*** *(Continued)*

***Group***

**Restated**

| | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| As at 31 December 2008 | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 350,671 | – | – | – | – | 11,509 | 362,180 |
| Due from other banks and financial institutions | 257,234 | 38,937 | 34,827 | 500 | – | 13 | 331,511 |
| Financial assets held for trading | 1,194 | 2,777 | 9,644 | 6,670 | 1,985 | 4,666 | 26,936 |
| Loans and advances to customers | 592,895 | 154,941 | 506,161 | 29,236 | 15,543 | – | 1,298,776 |
| Investment securities | | | | | | | |
| – loans and receivables | 625 | 9,659 | 34,542 | 45,116 | 961 | – | 90,903 |
| – available-for-sale | 11,104 | 30,575 | 44,575 | 39,576 | 14,336 | 1,844 | 142,010 |
| – held-to-maturity | 10,756 | 14,664 | 75,665 | 148,980 | 117,813 | – | 367,878 |
| Other assets, including deferred income tax assets | 5,913 | – | 929 | 767 | – | 50,446 | 58,055 |
| **Total assets** | 1,230,392 | 251,553 | 706,343 | 270,845 | 150,638 | 68,478 | 2,678,249 |
| **Liabilities** | | | | | | | |
| Due to other banks and financial institutions | (297,945) | (43,131) | (100,875) | (117,436) | (10,066) | – | (569,453) |
| Financial liabilities held for trading | (174) | – | (3,066) | (1,098) | – | (5,675) | (10,013) |
| Due to customers | (1,143,065) | (206,636) | (408,649) | (95,308) | (503) | (11,654) | (1,865,815) |
| Other liabilities, including deferred income tax liabilities | (179) | (13) | (12,018) | (12,253) | (17,801) | (45,104) | (87,368) |
| **Total liabilities** | (1,441,363) | (249,780) | (524,608) | (226,095) | (28,370) | (62,433) | (2,532,649) |
| **Total interest sensitivity gap** | (210,971) | 1,773 | 181,735 | 44,750 | 122,268 | 6,045 | 145,600 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Market risk *(Continued)*

### 3.2.3 Interest rate risk *(Continued)*

**Bank**

**Restated**

| | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| As at 31 December 2008 | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 350,671 | – | – | – | – | 11,488 | 362,159 |
| Due from other banks and financial institutions | 256,890 | 38,937 | 34,521 | 500 | – | 13 | 330,861 |
| Financial assets held for trading | 1,003 | 2,777 | 9,644 | 6,670 | 1,985 | 4,656 | 26,735 |
| Loans and advances to customers | 592,895 | 154,941 | 506,750 | 29,236 | 15,543 | – | 1,299,365 |
| Investment securities | | | | | | | |
| – loans and receivables | 625 | 9,659 | 34,542 | 44,680 | 961 | – | 90,467 |
| – available-for-sale | 11,104 | 30,575 | 44,575 | 39,571 | 14,336 | 1,440 | 141,601 |
| – held-to-maturity | 10,756 | 14,664 | 75,665 | 148,901 | 117,813 | – | 367,799 |
| Investments in subsidiaries | – | – | – | – | – | 4,782 | 4,782 |
| Other assets, including deferred income tax assets | 45 | – | – | – | – | 49,028 | 49,073 |
| **Total assets** | 1,223,989 | 251,553 | 705,697 | 269,558 | 150,638 | 71,407 | 2,672,842 |
| **Liabilities** | | | | | | | |
| Due to other banks and financial institutions | (299,068) | (42,481) | (96,874) | (117,196) | (10,066) | – | (565,685) |
| Financial liabilities held for trading | (174) | – | (3,066) | (1,100) | – | (5,675) | (10,015) |
| Due to customers | (1,143,765) | (206,636) | (408,649) | (95,359) | (503) | (11,654) | (1,866,566) |
| Other liabilities, including deferred income tax liabilities | (179) | (13) | (12,018) | (12,253) | (17,801) | (42,923) | (85,187) |
| **Total liabilities** | (1,443,186) | (249,130) | (520,607) | (225,908) | (28,370) | (60,252) | (2,527,453) |
| **Total interest sensitivity gap** | (219,197) | 2,423 | 185,090 | 43,650 | 122,268 | 11,155 | 145,389 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Market risk *(Continued)*

### 3.2.4 *Foreign exchange risk*

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in Hong Kong dollar, US dollar and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The senior management sets limits on the level of exposure by currencies, which is monitored regularly. The tables below summarise the Group's exposure to foreign currency exchange rate risk at the end of each year. The tables show the Group's total assets and liabilities at carrying amounts in RMB, categorized by the original currency.

***Group***

| | RMB | US Dollar | HK Dollar | Others | Total |
|---|---|---|---|---|---|
| **As a As at 31 December 2009** | | | | | |
| **Assets** | | | | | |
| Cash and balances with central banks | 403,469 | 7,075 | 20,341 | 4,111 | 434,996 |
| Due from other banks and financial institutions | 185,675 | 22,120 | 6,206 | 8,670 | 222,671 |
| Financial assets held for trading | 18,054 | 7,667 | 576 | 2,957 | 29,254 |
| Loans and advances to customers | 1,640,191 | 103,635 | 47,981 | 9,731 | 1,801,538 |
| Investment securities — loans and receivables | 107,159 | 334 | 22 | 89 | 107,604 |
| Investment securities — available-for-sale | 96,507 | 28,650 | 2,386 | 4,551 | 132,094 |
| Investment securities — held-to-maturity | 506,449 | 2,452 | — | 278 | 509,179 |
| Other assets, including deferred income tax assets | 68,799 | 672 | 1,767 | 563 | 71,801 |
| **Total assets** | 3,026,303 | 172,605 | 79,279 | 30,950 | 3,309,137 |
| **Liabilities** | | | | | |
| Due to other banks and financial institutions | (578,003) | (53,653) | (14,243) | (7,273) | (653,172) |
| Financial liabilities held for trading | (1,158) | (4,883) | (2,839) | (495) | (9,375) |
| Due to customers | (2,212,372) | (77,331) | (60,921) | (21,431) | (2,372,055) |
| Other liabilities, including deferred income tax liabilities | (103,149) | (3,869) | (1,596) | (1,496) | (110,110) |
| **Total liabilities** | (2,894,682) | (139,736) | (79,599) | (30,695) | (3,144,712) |
| **Net position** | 131,621 | 32,869 | (320) | 255 | 164,425 |
| **Financial guarantees and credit related commitments** | 461,016 | 101,339 | 22,480 | 28,549 | 613,384 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Market risk *(Continued)*

### 3.2.4 ***Foreign exchange risk*** *(Continued)*

***Bank***

| | RMB | US Dollar | HK Dollar | Others | Total |
|---|---|---|---|---|---|
| **As at 31 December 2009** | | | | | |
| **Assets** | | | | | |
| Cash and balances with central banks | 403,462 | 7,075 | 20,341 | 4,111 | 434,989 |
| Due from other banks and financial institutions | 185,477 | 22,113 | 4,860 | 8,663 | 221,113 |
| Financial assets held for trading | 17,854 | 7,504 | 312 | 2,957 | 28,627 |
| Loans and advances to customers | 1,640,002 | 103,635 | 48,628 | 9,731 | 1,801,996 |
| Investment securities — loans and receivables | 106,974 | 334 | 22 | 89 | 107,419 |
| Investment securities — available-for-sale | 96,085 | 28,650 | 1,882 | 4,551 | 131,168 |
| Investment securities — held-to-maturity | 506,408 | 2,334 | — | 278 | 509,020 |
| Investments in and due from subsidiaries | 3,386 | — | 2,274 | — | 5,660 |
| Other assets, including deferred income tax assets | 53,124 | 672 | 557 | 563 | 54,916 |
| **Total assets** | 3,012,772 | 172,317 | 78,876 | 30,943 | 3,294,908 |
| **Liabilities** | | | | | |
| Due to other banks and financial institutions | (567,300) | (53,653) | (14,388) | (7,273) | (642,614) |
| Financial liabilities held for trading | (1,158) | (4,883) | (2,839) | (495) | (9,375) |
| Due to customers | (2,212,348) | (77,405) | (61,544) | (21,462) | (2,372,759) |
| Other liabilities, including deferred income tax liabilities | (100,597) | (3,869) | (911) | (1,496) | (106,873) |
| **Total liabilities** | (2,881,403) | (139,810) | (79,682) | (30,726) | (3,131,621) |
| **Net position** | 131,369 | 32,507 | (806) | 217 | 163,287 |
| **Financial guarantees and credit related commitments** | 461,016 | 101,339 | 22,480 | 28,549 | 613,384 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Market risk *(Continued)*

### 3.2.4 Foreign exchange risk *(Continued)*

**Group**

**Restated**

| | RMB | US Dollar | HK Dollar | Others | Total |
|---|---|---|---|---|---|
| As at 31 December 2008 | | | | | |
| **Assets** | | | | | |
| Cash and balances with central banks | 357,043 | 3,906 | 715 | 516 | 362,180 |
| Due from other banks and financial institutions | 246,293 | 58,354 | 11,342 | 15,522 | 331,511 |
| Financial assets held for trading | 20,751 | 4,493 | 417 | 1,275 | 26,936 |
| Loans and advances to customers | 1,187,772 | 61,781 | 44,353 | 4,870 | 1,298,776 |
| Investment securities — loans and receivables | 90,766 | 137 | — | — | 90,903 |
| Investment securities — available-for-sale | 113,787 | 19,013 | 3,166 | 6,044 | 142,010 |
| Investment securities — held-to-maturity | 366,244 | 1,256 | 100 | 278 | 367,878 |
| Other assets, including deferred income tax assets | 54,052 | 1,031 | 2,606 | 366 | 58,055 |
| **Total assets** | 2,436,708 | 149,971 | 62,699 | 28,871 | 2,678,249 |
| **Liabilities** | | | | | |
| Due to other banks and financial institutions | (495,908) | (62,888) | (4,882) | (5,775) | (569,453) |
| Financial liabilities held for trading | (3,094) | (2,786) | (3,357) | (776) | (10,013) |
| Due to customers | (1,733,666) | (57,155) | (58,063) | (16,931) | (1,865,815) |
| Other liabilities, including deferred income tax liabilities | (81,766) | (2,849) | (1,591) | (1,162) | (87,368) |
| **Total liabilities** | (2,314,434) | (125,678) | (67,893) | (24,644) | (2,532,649) |
| **Net position** | 122,274 | 24,293 | (5,194) | 4,227 | 145,600 |
| **Financial guarantees and credit related commitments** | 352,750 | 82,167 | 17,149 | 24,816 | 476,882 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Market risk *(Continued)*

### 3.2.4 Foreign exchange risk *(Continued)*

**Bank**

**Restated**

| | RMB | US Dollar | HK Dollar | Others | Total |
|---|---|---|---|---|---|
| As at 31 December 2008 | | | | | |
| **Assets** | | | | | |
| Cash and balances with central banks | 357,022 | 3,906 | 715 | 516 | 362,159 |
| Due from other banks and financial institutions | 246,135 | 58,354 | 10,850 | 15,522 | 330,861 |
| Financial assets held for trading | 20,744 | 4,493 | 223 | 1,275 | 26,735 |
| Loans and advances to customers | 1,187,669 | 61,665 | 45,161 | 4,870 | 1,299,365 |
| Investment securities — loans and receivables | 90,330 | 137 | — | — | 90,467 |
| Investment securities — available-for-sale | 113,599 | 19,013 | 2,945 | 6,044 | 141,601 |
| Investment securities — held-to-maturity | 366,244 | 1,183 | 94 | 278 | 367,799 |
| Investments in and due from subsidiaries | 3,430 | — | 1,352 | — | 4,782 |
| Other assets, including deferred income tax assets | 46,120 | 1,031 | 1,556 | 366 | 49,073 |
| **Total assets** | 2,431,293 | 149,782 | 62,896 | 28,871 | 2,672,842 |
| **Liabilities** | | | | | |
| Due to other banks and financial institutions | (491,999) | (62,888) | (5,023) | (5,775) | (565,685) |
| Financial liabilities held for trading | (3,094) | (2,786) | (3,359) | (776) | (10,015) |
| Due to customers | (1,733,717) | (57,155) | (58,763) | (16,931) | (1,866,566) |
| Other liabilities, including deferred income tax liabilities | (79,840) | (2,849) | (1,336) | (1,162) | (85,187) |
| **Total liabilities** | (2,308,650) | (125,678) | (68,481) | (24,644) | (2,527,453) |
| **Net position** | 122,643 | 24,104 | (5,585) | 4,227 | 145,389 |
| **Financial guarantees and credit related commitments** | 352,750 | 82,167 | 17,149 | 24,816 | 476,882 |

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk

### *3.3.1 Overview*

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet its needs to fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to be made available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. In addition, the Bank limits its loan to deposit ratio at below 75% as required by the PBOC. As at 31 December 2009 15.5% (15.5% as at 31 December 2008) of the Bank's total RMB denominated deposits and 5% (5% as at 31 December 2008) of the total foreign currency denominated deposits must be deposited with the PBOC.

### *3.3.2 Liquidity risk management process*

The Group's liquidity risk management process, as monitored by the Assets and Liabilities Management Department for RMB business and foreign exchange business, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities centrally at head office; and centrally utilization the Bank's liquid assets;
- Setting up contingency plan, regular monitoring and precaution mechanism; establish crisis management plan;
- Enhancing the liquidity management of overseas branches.

Monitoring and reporting of cash flow measurement and projections are made for the next day, week and month separately, as these are key time periods for liquidity risk management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3–3.3.4).

Sources of liquidity are regularly reviewed by the Assets and Liability Management Department respectively to maintain a wide diversification by currency, geography, provider, product and term.

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk *(Continued)*

### 3.3.3 *Non-derivative financial liabilities and assets held for managing liquidity risk*

The table below presents the undiscounted cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date.

***Group***

| | On Demand | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Overdue | Total |
|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2009** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Due to other banks and financial institution | (275,199) | (83,719) | (101,389) | (85,955) | (118,757) | (2,400) | – | (667,419) |
| Financial liabilities held for trading | – | (3) | (6) | (3,010) | (3,521) | – | – | (6,540) |
| Due to customers | (1,157,321) | (372,225) | (257,751) | (493,552) | (138,206) | – | – | (2,419,055) |
| Debts issued | – | (49) | (997) | (3,966) | (27,483) | (34,182) | – | (66,677) |
| Other financial liabilities | (16,305) | (1,245) | (216) | (363) | (923) | (2,991) | – | (22,043) |
| **Total liabilities** | (1,448,825) | (457,241) | (360,359) | (586,846) | (288,890) | (39,573) | – | (3,181,734) |
| Cash and balances with central banks | 435,175 | – | – | – | – | – | – | 435,175 |
| Due from other banks and financial institutions | 28,416 | 98,106 | 27,230 | 69,781 | – | – | 13 | 223,546 |
| Financial assets held for trading | – | 479 | 1,258 | 3,736 | 20,280 | 4,503 | – | 30,256 |
| Loans and advances to customers | – | 109,363 | 226,624 | 619,595 | 652,772 | 502,940 | 21,756 | 2,133,050 |
| Investment securities – loans and receivables | – | 10,548 | 19,895 | 66,716 | 12,668 | 2,562 | – | 112,389 |
| Investment securities – available-for-sale ('AFS') | – | 2,537 | 4,403 | 45,838 | 69,991 | 25,380 | – | 148,149 |
| Investment securities – held-to-maturity ('HTM') | – | 5,539 | 14,128 | 77,073 | 328,472 | 179,976 | – | 605,188 |
| Other financial assets | 3,441 | 1,743 | 1,057 | 3,861 | 10,404 | 1,591 | 1,061 | 23,158 |
| **Assets held for managing liquidity risk (contractual maturity dates)** | 467,032 | 228,315 | 294,595 | 886,600 | 1,094,587 | 716,952 | 22,830 | 3,710,911 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk *(Continued)*

### 3.3.3 ***Non-derivative financial liabilities and assets held for managing liquidity risk*** *(Continued)*

***Bank***

| | On Demand | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Overdue | Total |
|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2009** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Due to other banks and financial institution | (276,314) | (82,539) | (101,627) | (75,625) | (118,357) | (2,400) | – | (656,862) |
| Financial liabilities held for trading | – | (3) | (6) | (3,010) | (3,521) | – | – | (6,540) |
| Due to customers | (1,157,908) | (372,225) | (257,788) | (493,556) | (138,281) | – | – | (2,419,758) |
| Debts issued | – | (49) | (997) | (3,966) | (27,483) | (34,182) | – | (66,677) |
| Other financial liabilities | (15,697) | – | (30) | (333) | (273) | (2,845) | – | (19,178) |
| **Total liabilities** | (1,449,919) | (454,816) | (360,448) | (576,490) | (287,915) | (39,427) | – | (3,169,015) |
| Cash and balances with central banks | 435,168 | – | – | – | – | – | – | 435,168 |
| Due from other banks and financial institutions | 26,860 | 98,103 | 27,230 | 69,781 | – | – | 13 | 221,987 |
| Financial assets held for trading | – | 479 | 1,258 | 3,736 | 20,161 | 3,994 | – | 29,628 |
| Loans and advances to customers | – | 110,667 | 225,260 | 620,094 | 652,764 | 502,940 | 21,756 | 2,133,481 |
| Investment securities – loans and receivables | – | 10,548 | 19,895 | 66,646 | 12,552 | 2,562 | – | 112,203 |
| Investment securities – available-for-sale ('AFS') | – | 2,537 | 4,403 | 45,838 | 69,991 | 24,455 | – | 147,224 |
| Investment securities – held-to-maturity ('HTM') | – | 5,539 | 14,126 | 77,028 | 328,399 | 179,937 | – | 605,029 |
| Other financial assets | 3,440 | 121 | 102 | – | – | 135 | 1,048 | 4,846 |
| **Assets held for managing liquidity risk (contractual maturity dates)** | 465,468 | 227,994 | 292,274 | 883,123 | 1,083,867 | 714,023 | 22,817 | 3,689,566 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk *(Continued)*

### 3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk *(Continued)*

**Group**

| | On Demand | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Overdue | Total |
|---|---|---|---|---|---|---|---|---|
| As at 31 December 2008 | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Due to other banks and financial institution | (244,843) | (53,585) | (43,825) | (106,953) | (137,634) | (11,028) | – | (597,868) |
| Financial liabilities held for trading | – | (188) | (22) | (3,122) | (1,117) | – | – | (4,449) |
| Due to customers | (919,386) | (236,388) | (211,633) | (421,108) | (117,077) | (613) | – | (1,906,205) |
| Debts issued | – | (49) | (997) | (12,848) | (15,748) | (18,643) | – | (48,285) |
| Other financial liabilities | (11,555) | – | (109) | (254) | (493) | (1,802) | – | (14,213) |
| **Total liabilities** | (1,175,784) | (290,210) | (256,586) | (544,285) | (272,069) | (32,086) | – | (2,571,020) |
| Cash and balances with central banks | 362,289 | – | – | – | – | – | – | 362,289 |
| Due from other banks and financial institutions | 80,651 | 177,024 | 40,249 | 37,170 | 557 | – | 13 | 335,664 |
| Financial assets held for trading | – | 1,032 | 1,935 | 9,479 | 8,709 | 2,403 | – | 23,558 |
| Loans and advances to customers | 809 | 85,107 | 169,216 | 595,213 | 372,451 | 262,164 | 23,601 | 1,508,561 |
| Investment securities – loans and receivables | – | 702 | 10,130 | 36,618 | 47,799 | 1,233 | – | 96,482 |
| Investment securities – available-for-sale ('AFS') | – | 4,458 | 15,910 | 45,525 | 66,090 | 21,915 | – | 153,898 |
| Investment securities – held-to-maturity ('HTM') | – | 2,479 | 6,627 | 47,931 | 231,108 | 160,822 | – | 448,967 |
| Other financial assets | 2,540 | 263 | 400 | 1,916 | 5,451 | 908 | 1,413 | 12,891 |
| **Assets held for managing liquidity risk (contractual maturity dates)** | 446,289 | 271,065 | 244,467 | 773,852 | 732,165 | 449,445 | 25,027 | 2,942,310 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk *(Continued)*

### ***3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk*** *(Continued)*

***Bank***

| | On Demand | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Overdue | Total |
|---|---|---|---|---|---|---|---|---|
| As at 31 December 2008 | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Due to other banks and financial institution | (245,967) | (53,583) | (43,175) | (102,953) | (137,394) | (11,028) | – | (594,100) |
| Financial liabilities held for trading | – | (188) | (22) | (3,122) | (1,119) | – | – | (4,451) |
| Due to customers | (920,085) | (236,388) | (211,633) | (421,109) | (117,128) | (613) | – | (1,906,956) |
| Debts issued | – | (49) | (997) | (12,848) | (15,748) | (18,643) | – | (48,285) |
| Other financial liabilities | (11,628) | – | (109) | (254) | (493) | (1,217) | – | (13,701) |
| **Total liabilities** | (1,177,680) | (290,208) | (255,936) | (540,286) | (271,882) | (31,501) | – | (2,567,493) |
| Cash and balances with central banks | 362,268 | – | – | – | – | – | – | 362,268 |
| Due from other banks and financial institutions | 80,425 | 176,906 | 40,249 | 36,864 | 557 | – | 13 | 335,014 |
| Financial assets held for trading | – | 831 | 1,935 | 9,479 | 8,709 | 2,403 | – | 23,357 |
| Loans and advances to customers | 809 | 85,107 | 169,216 | 595,802 | 372,451 | 262,164 | 23,601 | 1,509,150 |
| Investment securities – loans and receivables | – | 702 | 10,130 | 36,618 | 47,363 | 1,233 | – | 96,046 |
| Investment securities – available-for-sale ('AFS') | – | 4,458 | 15,910 | 45,525 | 66,085 | 21,511 | – | 153,489 |
| Investment securities – held-to-maturity ('HTM') | – | 2,479 | 6,627 | 47,931 | 231,028 | 160,822 | – | 448,887 |
| Other financial assets | 1,320 | 43 | 67 | – | – | – | 1,413 | 2,843 |
| **Assets held for managing liquidity risk (contractual maturity dates)** | 444,822 | 270,526 | 244,134 | 772,219 | 726,193 | 448,133 | 25,027 | 2,931,054 |

Assets available to meet all of the liabilities include cash, balances with central bank, items in the course of collection and treasury; due from other banks and financial institutions; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Group would also be able to meet unexpected net cash outflows by selling securities, using credit commitment from other financial institutions, early termination of borrowing from other financial institutions and repurchase agreement and using the mandatory reserve deposits upon PBOC's approval.

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk *(Continued)*

### 3.3.4 *Derivative cash flows*

The Group's derivatives were either settled on a net basis or a gross basis.

(a) *Derivatives settled on a net basis*

The Group's derivatives that will be settled on a net basis include:

- Foreign exchange derivatives: non-deliverable forward
- Interest rate derivatives: interest rate swaps, forward rate agreements and over the counter interest rate options.

The table below analyses the Group's derivative financial instruments which will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

***Group and Bank***

| | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2009** | | | | | | |
| **Assets** | | | | | | |
| Derivatives held for trading: | | | | | | |
| — Foreign exchange derivatives | 2 | 4 | 84 | – | – | 90 |
| — Interest rate derivatives | 29 | 73 | 260 | 631 | 398 | 1,391 |
| **Total** | 31 | 77 | 344 | 631 | 398 | 1,481 |
| **Liabilities** | | | | | | |
| Derivatives held for trading: | | | | | | |
| — Foreign exchange derivatives | (2) | (3) | (65) | – | – | (70) |
| — Interest rate derivatives | (65) | (79) | (433) | (678) | (377) | (1,632) |
| **Total** | (67) | (82) | (498) | (678) | (377) | (1,702) |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk *(Continued)*

### 3.3.4 Derivative cash flows *(Continued)*

(a) *Derivatives settled on a net basis (Continued)*

**Group and Bank**

| | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| As at 31 December 2008 | | | | | | |
| **Assets** | | | | | | |
| Derivatives held for trading: | | | | | | |
| — Foreign exchange derivatives | 71 | 71 | 451 | — | — | 593 |
| — Interest rate derivatives | 221 | 127 | 549 | 1,118 | 436 | 2,451 |
| **Total** | 292 | 198 | 1,000 | 1,118 | 436 | 3,044 |
| **Liabilities** | | | | | | |
| Derivatives held for trading: | | | | | | |
| — Foreign exchange derivatives | (55) | (136) | (227) | — | — | (418) |
| — Interest rate derivatives | (225) | (139) | (578) | (1,197) | (566) | (2,705) |
| **Total** | (280) | (275) | (805) | (1,197) | (566) | (3,123) |

(b) *Derivatives settled on a gross basis*

The Group's derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forward, currency swaps, cross currency interest rate swaps.

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

**Group and Bank**

| | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2009** | | | | | | |
| **Derivatives held for trading:** | | | | | | |
| Foreign exchange derivatives | | | | | | |
| — Outflow | (149,347) | (47,231) | (123,732) | (12,562) | (406) | (333,278) |
| — Inflow | 149,509 | 47,217 | 123,419 | 12,431 | 406 | 332,982 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk *(Continued)*

### 3.3.4 Derivative cash flows *(Continued)*

(b) *Derivatives settled on a gross basis (Continued)*

**Group and Bank**

| | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| As at 31 December 2008 | | | | | | |
| **Derivatives held for trading:** | | | | | | |
| Foreign exchange derivatives | | | | | | |
| — Outflow | (40,070) | (24,233) | (65,812) | (15,085) | (656) | (145,856) |
| — Inflow | 39,807 | 24,012 | 65,596 | 14,837 | 646 | 144,898 |

### 3.3.5 Maturity Analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date.

| | On Demand | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Overdue | Total |
|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2009** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 434,996 | – | – | – | – | – | – | 434,996 |
| Due from other banks and financial institutions | 28,411 | 98,013 | 27,095 | 69,139 | – | – | 13 | 222,671 |
| Financial assets held for trading | – | 691 | 1,339 | 3,574 | 18,829 | 4,821 | – | 29,254 |
| Loans and advances to customers | – | 104,985 | 207,754 | 568,784 | 534,841 | 371,827 | 13,347 | 1,801,538 |
| Investment securities — loans and receivables | – | 10,575 | 19,512 | 64,940 | 10,502 | 2,075 | – | 107,604 |
| Investment securities — available-for-sale | – | 2,125 | 3,926 | 42,662 | 61,983 | 21,398 | – | 132,094 |
| Investment securities — held-to-maturity | – | 4,918 | 11,574 | 62,091 | 280,853 | 149,743 | – | 509,179 |
| Other assets, including deferred income tax assets | 2,845 | 14,018 | 1,272 | 5,430 | 13,178 | 33,786 | 1,272 | 71,801 |
| **Total assets** | 466,252 | 235,325 | 272,472 | 816,620 | 920,186 | 583,650 | 14,632 | 3,309,137 |
| **Liabilities** | | | | | | | | |
| Due to other banks and financial institutions | (275,051) | (83,591) | (100,000) | (83,860) | (108,270) | (2,400) | – | (653,172) |
| Financial liabilities held for trading | – | (105) | (191) | (3,920) | (4,315) | (844) | – | (9,375) |
| Due to customers | (1,156,980) | (369,548) | (254,380) | (479,933) | (111,214) | – | – | (2,372,055) |
| Other financial liabilities | (21,702) | (176) | (26,113) | (7,683) | (22,433) | (32,003) | – | (110,110) |
| **Total liabilities (contractual maturity dates)** | (1,453,733) | (453,420) | (380,684) | (575,396) | (246,232) | (35,247) | – | (3,144,712) |
| **Net Assets** | (987,481) | (218,095) | (108,212) | 241,224 | 673,954 | 548,403 | 14,632 | 164,425 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk *(Continued)*

### ***3.3.5 Maturity Analysis** (Continued)*

| | On Demand | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Overdue | Total |
|---|---|---|---|---|---|---|---|---|
| As at 31 December 2008 | | | | | | | | |
| **Restated** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 362,180 | – | – | – | – | – | – | 362,180 |
| Due from other banks and financial institutions | 80,614 | 176,620 | 38,937 | 34,827 | 500 | – | 13 | 331,511 |
| Financial assets held for trading | – | 1,614 | 2,332 | 10,515 | 9,170 | 3,305 | – | 26,936 |
| Loans and advances to customers | 797 | 88,802 | 145,404 | 554,908 | 305,592 | 187,485 | 15,788 | 1,298,776 |
| Investment securities – loans and receivables | | | | | | – | | |
| Investment securities – available-for-sale | – | 625 | 9,659 | 34,542 | 45,116 | 961 | – | 90,903 |
| Investment securities – held-to-maturity | – | 4,306 | 15,536 | 43,165 | 59,204 | 19,799 | – | 142,010 |
| Other assets, including deferred income tax assets | – | 2,054 | 4,551 | 36,244 | 191,948 | 133,081 | – | 367,878 |
| **Total assets** | 9,513 | 11,929 | 316 | 2,359 | 4,527 | 29,181 | 230 | 58,055 |
| **Liabilities** | 453,104 | 285,950 | 216,735 | 716,560 | 616,057 | 373,812 | 16,031 | 2,678,249 |
| Due to other banks and financial institutions | (244,719) | (53,225) | (43,131) | (100,875) | (117,437) | (10,066) | – | (569,453) |
| Financial liabilities held for trading | | (931) | (558) | (4,529) | (2,708) | (1,287) | – | (10,013) |
| Due to customers | (919,140) | (234,148) | (206,153) | (406,242) | (99,629) | (503) | – | (1,865,815) |
| Other financial liabilities | (17,166) | (1,261) | (19,313) | (18,274) | (13,026) | (18,328) | – | (87,368) |
| **Total liabilities (contractual maturity dates)** | (1,181,025) | (289,565) | (269,155) | (529,920) | (232,800) | (30,184) | – | (2,532,649) |
| **Net Assets** | (727,921) | (3,615) | (52,420) | 186,640 | 383,257 | 343,628 | 16,031 | 145,600 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk *(Continued)*

### 3.3.6 Off-statement items

***Group***

| | No later than 1 year | 1–5 years | Over 5 years | Total |
|---|---|---|---|---|
| **At 31 December 2009** | | | | |
| Loan commitments | 138,956 | 25,520 | 228 | 164,704 |
| Acceptances and letters of credit | 267,747 | 3,576 | — | 271,323 |
| Operating lease commitments | 1,086 | 2,738 | 1,118 | 4,942 |
| Capital expenditure commitments | 394 | — | — | 394 |
| **Total** | 408,183 | 31,834 | 1,346 | 441,363 |
| At 31 December 2008 | | | | |
| Loan commitments | 95,564 | 6,187 | 750 | 102,501 |
| Acceptances and letters of credit | 216,036 | 3,427 | — | 219,463 |
| Operating lease commitments | 1,014 | 2,454 | 972 | 4,440 |
| Capital expenditure commitments | 30 | 327 | — | 357 |
| **Total** | 312,644 | 12,395 | 1,722 | 326,761 |

***Bank***

| | No later than 1 year | 1–5 years | Over 5 years | Total |
|---|---|---|---|---|
| **At 31 December 2009** | | | | |
| Loan commitments | 138,956 | 25,520 | 228 | 164,704 |
| Acceptances and letters of credit | 267,747 | 3,576 | — | 271,323 |
| Operating lease commitments | 1,074 | 2,731 | 1,118 | 4,923 |
| Capital expenditure commitments | 393 | — | 0 | 393 |
| **Total** | 408,170 | 31,827 | 1,346 | 441,343 |
| At 31 December 2008 | | | | |
| Loan commitments | 95,564 | 6,187 | 750 | 102,501 |
| Acceptances and letters of credit | 216,036 | 3,427 | — | 219,463 |
| Operating lease commitments | 998 | 2,435 | 972 | 4,405 |
| Capital expenditure commitments | 28 | 327 | — | 355 |
| **Total** | 312,626 | 12,376 | 1,722 | 326,724 |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.4 Fair values of financial assets and liabilities

### *(a) Financial instruments not measured at fair value*

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value: Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities, where instruments are quoted in the active market.

***Group***

| | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Financial assets** | | | | |
| Due from other banks and | | | | |
| financial institutions | 222,671 | 222,671 | 331,511 | 331,755 |
| Loans and advances to customers | 1,801,538 | 1,802,244 | 1,298,776 | 1,299,429 |
| Investment securities | | | | |
| — loans and receivables | 107,604 | 107,823 | 90,903 | 93,219 |
| — held to maturity | 509,179 | 510,464 | 367,878 | 387,302 |
| **Financial liabilities** | | | | |
| Due to other banks and | | | | |
| financial institutions | (653,172) | (655,403) | (569,453) | (572,342) |
| Due to customers | (2,372,055) | (2,374,416) | (1,865,815) | (1,869,061) |
| Subordinated term debt | (53,000) | (50,790) | (40,000) | (40,454) |

***Bank***

| | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Financial assets** | | | | |
| Due from other banks and | | | | |
| financial institutions | 221,113 | 221,113 | 330,861 | 331,105 |
| Loans and advances to customers | 1,801,996 | 1,802,702 | 1,299,365 | 1,300,018 |
| Investment securities | | | | |
| — loans and receivables | 107,419 | 107,638 | 90,467 | 92,784 |
| — held to maturity | 509,020 | 510,305 | 367,799 | 387,222 |
| **Financial liabilities** | | | | |
| Due to other banks and | | | | |
| financial institutions | (642,614) | (644,846) | (565,685) | (568,574) |
| Due to customers | (2,372,759) | (2,375,120) | (1,866,566) | (1,869,812) |
| Subordinated term debt | (53,000) | (50,790) | (40,000) | (40,454) |

The fair value of those financial assets and liabilities such as amounts due from/to other banks and financial institutions, loans and advances to customers and customer deposits approximate to the carrying value as the interest rates of most of these assets and liabilities are instantaneously adjusted to changes in interest rates set by the PBOC and other regulatory bodies. The Group only has an insignificant amount of fixed rate deposits with banks, financial institutions and customers and fixed rate loans.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.4 Fair values of financial assets and liabilities *(Continued)*

### (a) ***Financial instruments not measured at fair value*** *(Continued)*

*Due from other banks and financial institutions*

Due from other banks and financial institutions includes inter-bank placements and items in the course of collection. The fair values of floating rate placements and overnight deposits are their carrying amounts. The estimated fair value of fixed interest bearing deposits, which are normally less than one year, is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturities. Therefore, the fair value of due from other banks and financial institutions approximate its carrying value.

*Loans and advances to customers*

Loans and advances to customers are stated net of impairment allowance. All except a very insignificant portion of loans and advances to customers bear interest at a floating rate. Therefore, the carrying value of loans and advances to customers is a reasonable estimate of fair value.

*Investment securities*

The fair value for loans and receivables and held to maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

*Due to other banks and financial institutions and customers*

The estimated fair value of liabilities due to other banks and financial institutions and customers with no stated maturity, which includes non-interest-bearing liabilities due to other banks and financial institutions and customers, is the amount repayable on demand. The fair value of floating rate liabilities due to other banks and customers is their carrying amount. The estimated fair value of fixed interest bearing liabilities due to other banks and financial institutions and customers without quoted market price, which are normally less than one year, is based on discounted cash flows using interest rates for new debts with similar remaining maturities. Therefore, the fair value of due to other banks and financial institutions and customers is approximately equal to its carrying value.

*Subordinated term debt*

The fair value of floating rate subordinated term debts is approximately equal to its carrying amount. The fair value of fixed interest bearing subordinated term debts is calculated using a discounted cash flow model which is based on a current yield curve appropriate for the remaining term to maturity.

### (b) ***Fair value hierarchy***

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.4 Fair values of financial assets and liabilities *(Continued)*

### (b) ***Fair value hierarchy*** *(Continued)*

- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, and debt instruments traded in interbank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are China Bond and Bloomberg.

- Level 3 — inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and structured financial instruments.

The Group uses valuation techniques or counterparty quotations to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

For unlisted equity (private equity) and over-the-counter structured derivatives transactions held by the Group, management obtains valuation quotations from counterparties. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these instruments have been classified by the Group as level 3. Management assesses the impact of changes in macro-economic factors, engage external valuer and other inputs, including loss coverage ratios, to determine the fair value for the Group's level 3 financial instruments. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.4 Fair values of financial assets and liabilities *(Continued)*

### (b) Fair value hierarchy *(Continued)*

*Assets and liabilities measured at fair value:*

**Group**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **31 December 2009** | | | | |
| Financial assets held for trading | | | | |
| — Debt securities | 895 | 25,525 | — | 26,420 |
| — Equity investment | 464 | — | — | 464 |
| — Derivatives | — | 1,384 | 986 | 2,370 |
| | 1,359 | 26,909 | 986 | 29,254 |
| Investment securities-available-for-sale | | | | |
| — Debt securities | 16,633 | 112,916 | 228 | 129,777 |
| — Equity investment | 1,670 | 9 | 638 | 2,317 |
| | 18,303 | 112,925 | 866 | 132,094 |
| **Total Assets** | 19,662 | 139,834 | 1,852 | 161,348 |
| Financial liabilities held for trading | | | | |
| — Debt securities in issue and others | (113) | (6,355) | — | (6,468) |
| — Derivatives | — | (1,908) | (999) | (2,907) |
| | (113) | (8,263) | (999) | (9,375) |
| **Total Liabilities** | (113) | (8,263) | (999) | (9,375) |

**Bank**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **31 December 2009** | | | | |
| Financial assets held for trading | | | | |
| — Debt securities | 732 | 25,525 | — | 26,257 |
| — Derivatives | — | 1,384 | 986 | 2,370 |
| | 732 | 26,909 | 986 | 28,627 |
| Investment securities-available-for-sale | | | | |
| — Debt securities | 16,633 | 112,916 | 228 | 129,777 |
| — Equity investment | 744 | 9 | 638 | 1,391 |
| | 17,377 | 112,925 | 866 | 131,168 |
| **Total Assets** | 18,109 | 139,834 | 1,852 | 159,795 |
| Financial liabilities held for trading | | | | |
| — Debt securities in issue and others | (113) | (6,355) | — | (6,468) |
| — Derivatives | — | (1,908) | (999) | (2,907) |
| | (113) | (8,263) | (999) | (9,375) |
| **Total Liabilities** | (113) | (8,263) | (999) | (9,375) |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.4 Fair values of financial assets and liabilities *(Continued)*

### (b) Fair value hierarchy *(Continued)*

*Assets and liabilities measured at fair value: (Continued)*

**Group**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| 31 December 2008 | | | | |
| Financial assets held for trading | | | | |
| — Debt securities | 16,908 | 5,362 | — | 22,270 |
| — Equity investment | 10 | — | — | 10 |
| — Derivatives | 1,421 | 1,353 | 1,882 | 4,656 |
| | 18,339 | 6,715 | 1,882 | 26,936 |
| Investment securities-available-for-sale | | | | |
| — Debt securities | 87,691 | 51,933 | 542 | 140,166 |
| — Equity investment | 1,034 | 8 | 802 | 1,844 |
| | 88,725 | 51,941 | 1,344 | 142,010 |
| **Total Assets** | 107,064 | 58,656 | 3,226 | 168,946 |
| Financial liabilities held for trading | | | | |
| — Debt securities in issue and others | (4,338) | — | — | (4,338) |
| — Derivatives | (2,126) | (1,627) | (1,922) | (5,675) |
| | (6,464) | (1,627) | (1,922) | (10,013) |
| **Total Liabilities** | (6,464) | (1,627) | (1,922) | (10,013) |

**Bank**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| 31 December 2008 | | | | |
| Financial assets held for trading | | | | |
| — Debt securities | 16,717 | 5,362 | — | 22,079 |
| — Derivatives | 1,421 | 1,353 | 1,882 | 4,656 |
| | 18,138 | 6,715 | 1,882 | 26,735 |
| Investment securities-available-for-sale | | | | |
| — Debt securities | 87,911 | 51,525 | 725 | 140,161 |
| — Equity investment | 813 | 8 | 619 | 1,440 |
| | 88,724 | 51,533 | 1,344 | 141,601 |
| **Total Assets** | 106,862 | 58,248 | 3,226 | 168,336 |
| Financial liabilities held for trading | | | | |
| — Debt securities in issue and others | (4,340) | — | — | (4,340) |
| — Derivatives | (2,126) | (1,627) | (1,922) | (5,675) |
| | (6,466) | (1,627) | (1,922) | (10,015) |
| **Total Liabilities** | (6,466) | (1,627) | (1,922) | (10,015) |

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.4 Fair values of financial assets and liabilities *(Continued)*

### (b) Fair value hierarchy *(Continued)*

*Gains or losses for level 3 financial assets and liabilities*

| | Financial assets held for trading | Investment securities-AFS | Total assets | Financial liabilities held for trading | Total liabilities |
|---|---|---|---|---|---|
| **As at 1 January 2009** | 1,882 | 1,344 | 3,226 | (1,922) | (1,922) |
| Total gains or losses | | | | | |
| — (Loss)/profit | (376) | (7) | (383) | 399 | 399 |
| — Other comprehensive income | — | (54) | (54) | — | — |
| Additions | 4 | 117 | 121 | (8) | (8) |
| Disposals | (524) | (534) | (1,058) | 532 | 532 |
| **As at 31 December 2009** | 986 | 866 | 1,852 | (999) | (999) |
| Total (losses)/gains for the year included in statement of comprehensive income for assets/liabilities held at 31 December 2009 | (364) | (7) | (371) | 387 | 387 |

## 3.5 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored quarterly by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%, and a core capital ratio of above 4%. The Group's capital as monitored by its Planning and Finance Department is divided into two tiers:

- Core capital: Paid up ordinary share capital, capital surplus, statutory reserve, statutory general reserve, discretionary reserve, retained earnings and non-controlling interest; and
- Supplementary capital: Revaluation reserve for properties and AFS securities, collectively assessed impairment allowance for impaired assets and regulatory reserve, qualified portion of subordinated term debts.

(All amounts expressed in millions of RMB unless otherwise stated)

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.5 Capital management *(Continued)*

Goodwill, unconsolidated investment in financial associates and investments in non-financial related entities are deducted from Core and Supplementary capital to arrive at the capital.

The on-statement risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and customer, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement exposure with adjustments to reflect the contingent nature of the potential losses. The market risk capital adjustment is measured by means of a standardized approach.

The table below summarises the composition of regulatory capital and the ratios of the Group at year end.

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| **Core capital:** | | |
| Paid up ordinary share capital | 48,994 | 48,994 |
| Capital surplus | 37,374 | 37,888 |
| Reserves | 42,486 | 26,863 |
| Retained earnings | 25,057 | 17,973 |
| Non-controlling interest | 578 | 433 |
| | 154,489 | 132,151 |
| **Supplementary capital:** | | |
| Revaluation reserve for properties | — | 3,718 |
| Impairment allowance for impaired assets and regulatory reserves | 24,005 | 19,549 |
| Subordinated term debt | 50,000 | 27,400 |
| Others | 3,818 | 4,049 |
| Gross value of supplementary capital | 77,823 | 54,716 |
| Eligible value of supplementary capital | 77,823 | 54,716 |
| **Total capital base before deductions** | 232,312 | 186,867 |
| **Deductions:** | | |
| Goodwill | (200) | (200) |
| Unconsolidated investments in financial institutions | (727) | (706) |
| Investments in enterprises | (422) | (514) |
| Subordinated debts issued by other banks | (4,530) | — |
| | (5,879) | (1,420) |
| **Total capital base after deductions** | 226,433 | 185,447 |
| **Risk-weighted assets:** | | |
| On-statement risk-weighted assets | 1,653,589 | 1,194,962 |
| Off-statement risk-weighted assets | 195,763 | 156,476 |
| **Total risk-weighted assets** | 1,849,352 | 1,351,438 |
| Market risk capital | 3,014 | 2,000 |
| Capital adequacy ratio | 12.00% | 13.47% |
| Core capital adequacy ratio | 8.15% | 9.54% |

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.6 Fiduciary activities

The Group provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the financial statements.

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Investment custody accounts | 623,158 | 466,213 |
| Wealth Management | 46,348 | 40,639 |
| Entrusted loans | 117,312 | 125,719 |

## 4 NET INTEREST INCOME

***Group***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| **Interest income** | | |
| Balances with central banks | 5,501 | 4,985 |
| Due from other banks and financial institutions | 4,895 | 6,907 |
| Loans and advances to customers | 83,027 | 82,784 |
| Investment securities | 23,320 | 22,430 |
| | 116,743 | 117,106 |
| **Interest expense** | | |
| Due to other banks and financial institutions | (16,005) | (13,541) |
| Due to customers | (34,070) | (37,703) |
| | (50,075) | (51,244) |
| **Net interest income** | 66,668 | 65,862 |

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Interest income on listed investments | 6,346 | 3,634 |
| Interest income on unlisted investments | 16,974 | 18,796 |
| Interest income accrued on loans and advances to customers individually impaired | 545 | 555 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 5 FEE AND COMMISSION INCOME

***Group***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Commission income on settlement and agent service | 2,817 | 2,045 |
| Bank card related fee income | 3,992 | 2,938 |
| Guarantee and commitment commission income | 1,133 | 912 |
| Commission income on custodian service | 715 | 667 |
| Commission income on sale of investment funds | 984 | 853 |
| Commission income on funds management | 761 | 590 |
| Consulting income | 1,920 | 1,081 |
| Other commission income | 1,092 | 1,035 |
| | 13,414 | 10,121 |

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value | 119 | 84 |
| Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers | 715 | 667 |

## 6 FEE AND COMMISSION EXPENSE

***Group***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Commission expense on settlement and agent service | 332 | 283 |
| Syndicated loan commission expense | 67 | 81 |
| Bank card related fee expense | 1,155 | 715 |
| Other commission expense | 461 | 205 |
| | 2,015 | 1,284 |

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value | 67 | 81 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 7 DIVIDEND INCOME

***Group***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Available-for-sale investments — listed | 1 | 2 |
| Available-for-sale investments — unlisted | 64 | 81 |
| | 65 | 83 |

## 8 GAINS LESS LOSSES ARISING FROM TRADING ACTIVITIES

***Group***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Foreign exchange | 1,105 | 1,205 |
| Interest rate instruments | 230 | 352 |
| | 1,335 | 1,557 |

Net income on foreign exchange includes gains or losses from spot and forward contracts, currency swaps, currency options, currency futures and from the translation of foreign currency monetary assets and liabilities into RMB.

Net income on interest rate instruments includes the results of marking securities held for trading, interest rate swaps, cross currency interest rate swaps, interest rate options and other interest rate derivatives to market.

## 9 OTHER OPERATING INCOME

***Group***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Profit on sale of land use rights and buildings | 86 | 47 |
| Profit on sale of foreclosed assets and other assets | 69 | 60 |
| Revaluation of investment property | 18 | — |
| Income from sales of franchised precious metal merchandise | 632 | — |
| Other miscellaneous income | 515 | 604 |
| | 1,320 | 711 |

Other miscellaneous income includes income arising from miscellaneous banking services provided to the Group's customers.

(All amounts expressed in millions of RMB unless otherwise stated)

## 10 IMPAIRMENT ALLOWANCES

***Group***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Due from other banks and financial institutions and securities purchased under resale agreements, net (Note 17(b)) | (3) | (25) |
| Loans and advances to customers (Note 20(b)) | | |
| — Collectively assessed allowances | 9,318 | 5,855 |
| — Individually assessed allowances, net | 1,962 | 4,890 |
| | 11,280 | 10,745 |
| Less: recovery of loans previously written off | (22) | (30) |
| | 11,255 | 10,690 |

## 11 OTHER OPERATING EXPENSES

***Group***

| | Year ended 31 December 2009 | 2008 Restated |
|---|---|---|
| Restated | | |
| Staff costs (Note 12) | 12,457 | 11,762 |
| General and administrative expenses | 6,663 | 6,206 |
| Business tax and surcharges | 5,147 | 4,923 |
| Depreciation (Note 22) | 2,880 | 2,507 |
| Operating lease rentals | 1,394 | 1,245 |
| Regulator's supervision fee | 345 | 302 |
| Amortization of intangible assets | 230 | 228 |
| Unsettled obligation | 141 | 370 |
| Provision for/(reversal of) outstanding litigation | 115 | (331) |
| Impairment of finance lease receivable (Note 23(c)) | 76 | 76 |
| Impairment/(reversal of impairment) of other receivables | 55 | (67) |
| Professional fees | 49 | 70 |
| Amortization of land use rights | 31 | 6 |
| Revaluation deficit of investment property | — | 19 |
| (Reversal of provision)/provision for impairment loss of investment securities ((a), Note 21) | (157) | 1,090 |
| Others | 2,596 | 2,227 |
| | 32,022 | 30,633 |

### (a) Net impairment losses on investment securities

***Group***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Loans and receivables (Note 21) | (3) | — |
| Held-to-maturity (Note 21) | (5) | 5 |
| Available-for-sale (Note 21) | (149) | 1,085 |
| (Net reversal)/charge of impairment losses | (157) | 1,090 |

## 12 STAFF COSTS

***Group***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Salaries and bonuses | 8,721 | 8,468 |
| Pension costs (Note 29) | 1,119 | 908 |
| Housing benefits and subsidies | 616 | 534 |
| Other social security and benefit costs | 2,001 | 1,852 |
| | 12,457 | 11,762 |

## 13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### (a) Directors' and supervisors' taxable emoluments (In thousands of RMB)

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | | | 2008 |
| Name | Emoluments | Remuneration Paid | Other benefits | Employer's contribution to pension scheme | Total | Total |
| **Executive directors** | | | | | | |
| Mr. Hu, Huaibang(1) | – | 684 | 166 | 37 | 887 | 439 |
| Mr. Li, Jun(1) | – | 684 | 166 | 37 | 887 | 1,751 |
| Mr. Niu, Ximing | – | – | – | – | – | – |
| Mr. Peng, Chun(1) | – | 624 | 135 | 34 | 793 | 1,433 |
| Mr. Qian, Wenhui(1) | – | 624 | 135 | 34 | 793 | 1,433 |
| **Non-executive directors** | | | | | | |
| Mr. Zhang, Jixiang(1) | – | 552 | 119 | 31 | 702 | 1,232 |
| Mr. Hu, Huating(1) | – | 552 | 119 | 31 | 702 | 1,230 |
| Mr. Qian, Hongyi | – | – | – | – | – | – |
| Mr. Wang, Dongshen | 15 | – | – | – | 15 | 15 |
| Ms. Shi, Meilun | 5 | – | – | – | 5 | 10 |
| Mr. Ji, Guoqiang | 15 | – | – | – | 15 | 10 |
| Mr. Lei, Jun | 15 | – | – | – | 15 | 10 |
| Mr. Yang, Fenglin | – | – | – | – | – | – |
| Mr. Xie, Qingjian | – | – | – | – | – | 125 |
| Mr. Ian Ramsay Wilson | – | 250 | – | – | 250 | 250 |
| Mr. Thomas Joseph Manning | – | 250 | – | – | 250 | 250 |
| Mr. Chen, Qingtai | – | – | – | – | – | 125 |
| Mr. Li, Jia Xiang | – | 250 | – | – | 250 | 250 |
| Mr. Gu, Ming Chao | – | – | – | – | – | 125 |
| Mr. Jiang, Chaoliang | NA | NA | NA | NA | NA | 1,312 |
| Mr. Li, Keping | NA | NA | NA | NA | NA | 5 |
| Mr. Gao, Shiqing | NA | NA | NA | NA | NA | 5 |
| Mr. Timothy David Dattles | NA | NA | NA | NA | NA | – |

## 13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

*(Continued)*

### (a) Directors' and supervisors' taxable emoluments (in thousands of RMB) *(Continued)*

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | | | 2008 |
| Name | Emoluments | Remuneration Paid | Other benefits | Employer's contribution to pension scheme | Total | Total |
| **Supervisors** | | | | | | |
| Mr. Hua. Qingshan[(1)] | – | 684 | 166 | 37 | 887 | 1,751 |
| Mr. Zheng, Li | – | – | – | – | – | 100 |
| Mr. Jiang, Zuqi | – | – | – | – | – | 100 |
| Mr. Guan, Zhenyi | 15 | – | – | – | 15 | 20 |
| Mr. Yang, Fajia | 15 | – | – | – | 15 | 5 |
| Ms. Wang, Lisheng | 15 | – | – | – | 15 | 20 |
| Mr. Li, Jin | 15 | – | – | – | 15 | 10 |
| Mr. Yan, Hong | 20 | – | – | – | 20 | 5 |
| Ms. Liu, Sha[(1)] | – | 467 | 96 | 20 | 583 | 1,268 |
| Ms. Chen, Qing[(1)] | – | 460 | 85 | 26 | 571 | 1,244 |
| Mr. Shuai, Shi[(1)] | – | 416 | 69 | 26 | 511 | 485 |
| Mr. Liu, Qiang | NA | NA | NA | NA | NA | 10 |
| Mr. Lee, Jun | NA | NA | NA | NA | NA | 337 |
| **Total** | 130 | 6,497 | 1,256 | 313 | 8,196 | 15,365 |

(1) The total compensation package for these Directors and Supervisors for the year ended 31 December 2009 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's and the Bank's 2009 financial statements. The final compensation will be disclosed in a separate announcement when determined.

Above listed amounts only include emoluments of the Directors or Supervisors during their tenure of Director or Supervisor. Mr. Li Jun resigned from the position of the governor on 29 December 2009, Mr. Niu Ximing was appointed as the new governor of the Bank on 29 December 2009.

### (b) Five Highest Paid Individuals

The five highest paid individuals in the Bank for the related years are as follows

| | Year ended 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Salary | 6 | 6 |
| Discretionary bonuses | 3 | 3 |
| Employer's contribution to pension scheme and other benefits | 1 | 1 |
| | 10 | 10 |

## 13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

### (b) Five Highest Paid Individuals *(Continued)*

Emoluments of above five highest paid individuals in the Bank are within the following bands

| | Number of employees 2009 | 2008 |
|---|---|---|
| RMB1,000,000 — RMB1,500,000 | — | 1 |
| RMB1,500,000 — RMB2,000,000 | 4 | 2 |
| RMB2,000,000 — RMB2,500,000 | 1 | 2 |
| | 5 | 5 |

During the year, no emolument was paid by the Bank to any of the directors, supervisors and five highest paid individuals as an inducement to join or upon joining the Bank or as compensation for loss of office.

### (c) Share-based compensation

On 18 November 2005, the Board resolved to grant certain cash settled share appreciation rights ('SARs') to several senior executives of the Bank under long term incentive plan. According to the resolution, the initial grant of SARs targeted at senior executives of the Bank as at 23 June 2005. The exercise price of each SAR is HK$2.5, which was the issue price of the H share at the time of its initial public offering. The amount of the initial grant of the SARs was 7.558 million shares. The SARs was valid for a period of ten years from 23 June 2005, with a two-year vesting period.

On 3 November 2006, the Board resolved to grant certain cash settled SARs to several senior executives of the Bank under long term incentive plan. According to the resolution, the grant of SARs targeted at senior executives of the Bank as at 3 November 2006. The exercise price of each SAR is HK$6.13, which was the closing price of the Group's H Share on the granting date. The amount of the grant of the SARs was 2.724 million shares. The SARs was valid for a period of ten years from 3 November 2006, with a two-year vesting period.

During the year of 2009, no SAR was granted and exercised. Benefits arising from the granting of these SARs were recognised in the consolidated statement of comprehensive income but not included in the directors' emoluments disclosed above.

Movements in the number of SARs outstanding are as follows

***Group and Bank***

| | Year ended at 31 December 2009 Number of shares (In millions) | 2008 Number of shares (In millions) |
|---|---|---|
| Outstanding at beginning of the period | 11 | 11 |
| Granted | — | — |
| Outstanding at end of the period | 11 | 11 |

The fair value of SARs using Binomial Option Pricing model at 31 December 2009 is RMB30.15 million (31 December 2008: RMB14.36 million).

(All amounts expressed in millions of RMB unless otherwise stated)

## 14 INCOME TAX EXPENSE

***Group***

| | Year ended 31 December 2009 | 2008 Restated |
|---|---|---|
| Current tax | | |
| — Mainland China income tax | 8,756 | 8,285 |
| — Hong Kong profits tax | 300 | 11 |
| — Overseas taxation | 93 | (52) |
| | 9,149 | 8,244 |
| Deferred income tax (Note 28) | (1,102) | (912) |
| | 8,047 | 7,332 |

The provision for income tax in Mainland China is calculated based on the statutory rate of 25% of the assessable income of the Bank and each of the subsidiaries established in Mainland China.

Profits earned by the Hong Kong branch or subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% (2008: 16.5%), on the estimated assessable profit for the year ended 31 December 2009. Taxation on other overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates during the year ended 31 December 2009.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group at 25% (2008: 25%). The major reconciliation items are as follows:

| | Year ended 31 December 2009 | 2008 Restated |
|---|---|---|
| Profit before tax | 38,301 | 35,953 |
| Tax calculated at a tax rate of 25% | 9,575 | 8,988 |
| Effect of different tax rates in other countries (region) | 5 | 10 |
| Tax effect arising from income not subject to tax (a) | (1,725) | (1,783) |
| Tax effect of expenses that are not deductible for tax purposes (b) | 192 | 118 |
| Impact arising from change in tax rates | — | (1) |
| Income tax expense | 8,047 | 7,332 |

(a) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulation.

(b) The expenses that are not tax deductible mainly represents a portion of expenditure, such as payroll, entertainment expenses etc, which exceeds the tax deduction limits in accordance with PRC tax regulation.

## 15 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

| | Year ended 31 December 2009 | 2008 Restated |
|---|---|---|
| Profit attributable to shareholders of the Bank | 30,118 | 28,524 |
| Weighted average number of ordinary shares in issue | 48,994 | 48,994 |
| Basic and diluted earnings per share (expressed in RMB per share) | 0.61 | 0.58 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 16 CASH AND BALANCES WITH CENTRAL BANKS

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Cash | 11,797 | 11,509 |
| Balances with central banks other than mandatory reserve deposits | 88,664 | 98,484 |
| Included in cash and cash equivalents (Note 38(b)) | 100,461 | 109,993 |
| Mandatory reserve deposits | 334,535 | 252,187 |
| | 434,996 | 362,180 |

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Cash | 11,796 | 11,508 |
| Balances with central banks other than mandatory reserve deposits | 88,663 | 98,465 |
| Included in cash and cash equivalents | 100,459 | 109,973 |
| Mandatory reserve deposits | 334,530 | 252,186 |
| | 434,989 | 362,159 |

The Group is required to place mandatory reserve deposits with central banks. The deposits are calculated based on the amount of deposits placed with the Group by its customers.

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Mandatory reserve rate for deposits denominated in RMB | 15.5% | 15.5% |
| Mandatory reserve rate for deposits denominated in foreign currencies | 5% | 5% |

Mandatory reserve deposits with central banks are not available for use by the Group in its day to day operations.

## 17 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

### (a) Due from other banks and financial institutions

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Placement with other banks and included in cash equivalents (Note 38(b)) | 68,037 | 115,739 |
| Securities purchased under resale agreement | 49,352 | 96,816 |
| Loans purchased under resale agreement | 61,985 | 29,417 |
| Loans and advances to other banks | 29,747 | 80,193 |
| Loans to other financial institutions | 13,550 | 9,559 |
| | 43,297 | 89,752 |
| Less: Individual impairment allowance on amounts due from other banks and financial institutions | — | (213) |
| | 43,297 | 89,539 |
| | 222,671 | 331,511 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 17 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

### (a) Due from other banks and financial institutions *(Continued)*

***Bank***

| | As at 31 December 2009 | As at 31 December 2008 |
|---|---|---|
| Placement with other banks and included in cash equivalents | 66,479 | 115,202 |
| Securities purchased under resale agreement | 49,352 | 96,703 |
| Loans purchased under resale agreement | 61,985 | 29,417 |
| Loans and advances to other banks | 29,747 | 80,193 |
| Loans to other financial institutions | 13,550 | 9,559 |
| | 43,297 | 89,752 |
| Less: Individual impairment allowance on amounts due from other banks and financial institutions | — | (213) |
| | 43,297 | 89,539 |
| | 221,113 | 330,861 |

### (b) Movements in allowance for impairment losses on amounts due from other banks and financial institutions

***Group and Bank***

| | Year ended 31 December 2009 | Year ended 31 December 2008 |
|---|---|---|
| **Balance at beginning of the year** | 213 | 314 |
| Reversal of Impairment allowances (Note 10) | (3) | (25) |
| Transfer to other receivable | (197) | — |
| Amount written off during the year as uncollectible | (13) | (76) |
| **Balance at end of the year** | — | 213 |

### (c) Impaired amount of due from other banks and financial institutions

***Group and Bank***

| | As at 31 December 2009 | As at 31 December 2008 |
|---|---|---|
| Impaired amount of due from other banks and financial institutions | — | 213 |
| Impaired amount of due from other banks and financial institutions to total balance of due from other banks and financial institutions (percentage) | — | 0.06% |

(All amounts expressed in millions of RMB unless otherwise stated)

## 18 FINANCIAL ASSETS HELD FOR TRADING

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Derivative financial instruments (Note 19) | 2,370 | 4,656 |
| Government bonds | | |
| — Listed in Hong Kong | 805 | — |
| — Listed outside Hong Kong | 1,332 | 442 |
| — Unlisted | 1,345 | 3,882 |
| Other debt securities | | |
| — Listed in Hong Kong | 2,401 | 788 |
| — Listed outside Hong Kong | 4,643 | 795 |
| — Unlisted — corporate bonds | 7,003 | 11,130 |
| — Unlisted — public sector | 861 | 282 |
| — Unlisted — banking sector | 8,030 | 4,951 |
| Equity securities | | |
| — Listed in Hong Kong | 264 | — |
| — Listed outside Hong Kong | 200 | 10 |
| | 29,254 | 26,936 |

Majority of the Group's unlisted bonds are traded in the inter-bank market in Mainland China.

As at 31 December 2009, no trading securities of the Group were pledged to third parties under repurchase agreements (2008: RMB18.72 million).

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Derivative financial instruments (Note 19) | 2,370 | 4,656 |
| Government bonds | | |
| — Listed in Hong Kong | 805 | — |
| — Listed outside Hong Kong | 1,332 | 442 |
| — Unlisted | 1,345 | 3,882 |
| Other debt securities | | |
| — Listed in Hong Kong | 2,273 | 788 |
| — Listed outside Hong Kong | 4,643 | 604 |
| — Unlisted — corporate bonds | 7,003 | 11,130 |
| — Unlisted — public sector | 861 | 282 |
| — Unlisted — banking sector | 7,995 | 4,951 |
| | 28,627 | 26,735 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 18 FINANCIAL ASSETS HELD FOR TRADING *(Continued)*

### Securities — financial assets held for trading (by issuer)

***Group***

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| **Securities — financial assets held for trading** | | |
| — Central governments and central banks | 3,482 | 4,324 |
| — Public sector entities | 2,590 | 284 |
| — Banks and other financial institutions | 12,636 | 6,190 |
| — Corporate entities | 8,176 | 11,482 |
| | 26,884 | 22,280 |

***Bank***

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| **Securities — financial assets held for trading** | | |
| — Central governments and central banks | 3,482 | 4,324 |
| — Public sector entities | 2,590 | 284 |
| — Banks and other financial institutions | 12,217 | 6,004 |
| — Corporate entities | 7,968 | 11,467 |
| | 26,257 | 22,079 |

## 19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilized by the Group for trading purpose:

Currency forwards represent commitments to purchase/sell foreign exchanges including unsettled spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (OTC).

(All amounts expressed in millions of RMB unless otherwise stated)

## 19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

***Group and Bank***

| | Contract/notional | Fair values | |
|---|---|---|---|
| | Amount | Assets | Liabilities |
| **As at 31 December 2009** | | | |
| Foreign exchange contracts | 357,328 | 1,031 | (1,319) |
| Interest rate contracts | 153,032 | 1,339 | (1,588) |
| **Total derivatives** | 510,360 | 2,370 | (2,907) |

***Group and Bank***

| | Contract/notional | Fair values | |
|---|---|---|---|
| | Amount | Assets | Liabilities |
| **As at 31 December 2008** | | | |
| Foreign exchange contracts | 167,252 | 1,995 | (2,780) |
| Interest rate contracts | 119,649 | 2,661 | (2,895) |
| **Total derivatives** | 286,901 | 4,656 | (5,675) |

The tables above provide a detailed breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Group undertakes its transactions in foreign exchange and interest rate contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

(All amounts expressed in millions of RMB unless otherwise stated)

## 19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

### Credit risk weighted amounts

***Group and Bank***

| | As at 31 December 2009 | As at 31 December 2008 |
|---|---|---|
| Derivatives | | |
| — Exchange rate contracts | 1,395 | 938 |
| — Interest rate contracts | 516 | 625 |
| | 1,911 | 1,563 |

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the China Banking Regulatory Commission ("CBRC") and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

### Replacement costs

***Group and Bank***

| | As at 31 December 2009 | As at 31 December 2008 |
|---|---|---|
| Derivatives | | |
| — Exchange rate contracts | 1,031 | 1,995 |
| — Interest rate contracts | 1,339 | 2,661 |
| | 2,370 | 4,656 |

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market.

The credit risk weighted amounts and replacement costs stated above have taken the effects of netting arrangements into account.

### Notional amounts of derivative financial instruments by original currency

***Group and Bank***

| | 30 December 2009 | 31 December 2008 |
|---|---|---|
| RMB | 260,649 | 158,670 |
| US Dollars | 202,292 | 97,090 |
| HK Dollars | 19,811 | 16,039 |
| Others | 27,608 | 15,102 |
| **Total** | 510,360 | 286,901 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS

### (a) Loans and advances to customers

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Loans and advances to customers | 1,839,314 | 1,328,590 |
| Less: collective impairment allowances | (22,778) | (13,431) |
| individual impairment allowances | (14,998) | (16,383) |
| | 1,801,538 | 1,298,776 |

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Loans and advances to customers | 1,839,771 | 1,329,179 |
| Less: collective impairment allowances | (22,777) | (13,431) |
| individual impairment allowances | (14,998) | (16,383) |
| | 1,801,996 | 1,299,365 |

### (b) Movements in allowance for losses on loans and advances

***Group***

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Collectively accessed | Individually impaired | Collectively accessed | Individually impaired |
| **Balance at beginning of the year** | 13,431 | 16,383 | 7,690 | 14,012 |
| Impairment allowances for loans charged to statement of comprehensive income | 9,318 | 5,415 | 5,855 | 9,372 |
| Reversal of impairment allowances for loans | — | (3,453) | — | (4,482) |
| Net impairment allowances for loans charged to statement of comprehensive income (Note 10) | 9,318 | 1,962 | 5,855 | 4,890 |
| Unwind of discount on allowances | — | (545) | — | (555) |
| Loans written off during the year as uncollectible | — | (2,804) | — | (1,927) |
| Exchange difference | 29 | 2 | (114) | (37) |
| **Balance at end of the year** | 22,778 | 14,998 | 13,431 | 16,383 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

### (b) Movements in allowance for losses on loans and advances *(Continued)*

***Bank***

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Collectively accessed | Individually impaired | Collectively accessed | Individually impaired |
| **Balance at beginning of the year** | 13,431 | 16,383 | 7,690 | 14,012 |
| Impairment allowances for loans charged to statement of comprehensive income | 9,317 | 5,415 | 5,855 | 9,372 |
| Reversal of impairment allowances for loans | — | (3,453) | — | (4,482) |
| Net impairment allowances for loans charged to statement of comprehensive income | 9,317 | 1,962 | 5,855 | 4,890 |
| Unwind of discount on allowances | — | (545) | — | (555) |
| Loans written off during the year as uncollectible | — | (2,804) | — | (1,927) |
| Exchange difference | 29 | 2 | (114) | (37) |
| **Balance at end of the year** | 22,777 | 14,998 | 13,431 | 16,383 |

***Group***

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Corporate | Individual | Corporate | Individual |
| **Balance at beginning of the year** | 26,341 | 3,473 | 19,175 | 2,527 |
| Impairment allowances for loans charged to statement of comprehensive income | 13,003 | 1,730 | 14,125 | 1,102 |
| Reversal of impairment allowances for loans | (3,301) | (152) | (4,447) | (35) |
| Net impairment allowances for loans charged to statement of comprehensive income | 9,702 | 1,578 | 9,678 | 1,067 |
| Unwind of discount on allowances | (456) | (89) | (476) | (79) |
| Loans written off during the year as uncollectible | (2,802) | (2) | (1,887) | (40) |
| Exchange difference | 27 | 4 | (149) | (2) |
| **Balance at end of the year** | 32,812 | 4,964 | 26,341 | 3,473 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

### (b) Movements in allowance for losses on loans and advances *(Continued)*

***Bank***

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Corporate | Individual | Corporate | Individual |
| **Balance at beginning of the year** | 26,341 | 3,473 | 19,175 | 2,527 |
| Impairment allowances for loans charged to statement of comprehensive income | 13,002 | 1,730 | 14,125 | 1,102 |
| Reversal of impairment allowances for loans | (3,301) | (152) | (4,447) | (35) |
| Net impairment allowances for loans charged to statement of comprehensive income | 9,701 | 1,578 | 9,678 | 1,067 |
| Unwind of discount on allowances | (456) | (89) | (476) | (79) |
| Loans written off during the year as uncollectible | (2,802) | (2) | (1,887) | (40) |
| Exchange difference | 27 | 4 | (149) | (2) |
| **Balance at end of the year** | 32,811 | 4,964 | 26,341 | 3,473 |

### (c) Individually identified loans with impairment

***Group and Bank***

| | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | Impaired loan | Specific Provision | Impaired loan | Specific Provision |
| Corporate | 21,869 | (13,027) | 22,602 | (14,823) |
| Individual | 3,140 | (1,971) | 2,918 | (1,560) |
| | 25,009 | (14,998) | 25,520 | (16,383) |

***Group and Bank***

| | As at 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Individually impaired loans to loans and advances to customers (percentage) | 1.36% | 1.92% |

(All amounts expressed in millions of RMB unless otherwise stated)

## 21 INVESTMENT SECURITIES

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| **Securities — loans and receivables** | | |
| Debt securities — at amortised cost | | |
| — Unlisted | 107,604 | 90,974 |
| Provision for loans and receivables | — | (71) |
| **Loans & receivables securities, net** | 107,604 | 90,903 |
| **Securities — available-for-sale** | | |
| Debt securities — at fair value | | |
| — Listed in Hong Kong | 821 | 393 |
| — Listed outside Hong Kong | 14,514 | 20,434 |
| — Unlisted | 114,442 | 119,339 |
| **Debt securities, net** | 129,777 | 140,166 |
| Equity securities — at fair value | | |
| — Listed in Hong Kong | 515 | 222 |
| — Listed outside Hong Kong | 1,100 | 820 |
| — Unlisted | 702 | 802 |
| **Equity securities, net** | 2,317 | 1,844 |
| **Securities — available-for-sale total, net** | 132,094 | 142,010 |
| **Include: Market value of listed securities — available-for-sale** | 16,950 | 21,307 |

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| **Securities — held-to-maturity** | | |
| Debt securities — at amortized cost | | |
| — Listed outside Hong Kong | 150,313 | 133,318 |
| — Unlisted | 358,866 | 234,565 |
| Provision for debt securities | — | (5) |
| **Held-to-maturity securities, net** | 509,179 | 367,878 |
| **Include: Market value of listed Held-to-maturity securities** | 153,729 | 140,982 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 21 INVESTMENT SECURITIES *(Continued)*

Debt securities at fair value of RMB18,188 million (2008: RMB8,463 million) were pledged to third parties under repurchase agreements.

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| **Securities — loans and receivables** | | |
| Debt securities — at amortised cost | | |
| — Unlisted | 107,419 | 90,538 |
| Provision for loans and receivables | — | (71) |
| **Loans & receivables securities, net** | 107,419 | 90,467 |
| **Securities — available-for-sale** | | |
| Debt securities — at fair value | | |
| — Listed in Hong Kong | 821 | 393 |
| — Listed outside Hong Kong | 14,514 | 20,434 |
| — Unlisted | 114,442 | 119,334 |
| **Debt securities, net** | 129,777 | 140,161 |
| Equity securities — at fair value | | |
| — Listed in Hong Kong | 11 | 2 |
| — Listed outside Hong Kong | 734 | 819 |
| — Unlisted | 646 | 619 |
| **Equity securities, net** | 1,391 | 1,440 |
| **Securities — available-for-sale total, net** | 131,168 | 141,601 |
| **Include: Market value of listed securities — available-for-sale** | 16,080 | 21,086 |
| **Securities — held-to-maturity** | | |
| Debt securities — at amortized cost | | |
| — Listed outside Hong Kong | 150,189 | 133,249 |
| — Unlisted | 358,831 | 234,555 |
| Provision for debt securities | — | (5) |
| **Held-to-maturity securities, net** | 509,020 | 367,799 |
| **Include: Market value of listed Held-to-maturity securities** | 153,729 | 140,911 |

The Group holds bonds issued by the PBOC as at 31 December 2009 amounting to RMB61,337 million (2008: RMB119,008 million). The related interest rates on such bonds for the year ended 31 December 2009 ranged between 3.02%–4.56%. (2008: 1.89%–4.56%)

(All amounts expressed in millions of RMB unless otherwise stated)

## 21 INVESTMENT SECURITIES *(Continued)*

Gains less losses arising from investment securities comprise:

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Gains less losses arising from de-recognition of investment securities | 791 | 226 |

The movement in investment securities may be summarized as follows:

***Group***

| | Loans and receivables | Available-for-sale | Held-to-maturity | Total |
|---|---|---|---|---|
| **Before provision** | | | | |
| Balance at 1 January 2009 | 90,974 | 143,678 | 367,883 | 602,535 |
| Additions | 108,530 | 280,914 | 286,426 | 675,870 |
| Disposals (sale or redemption) | (91,900) | (290,828) | (145,165) | (527,893) |
| Gains from changes in fair value | — | (1,052) | — | (1,052) |
| Exchange differences | — | 790 | 35 | 825 |
| **At 31 December 2009** | 107,604 | 133,502 | 509,179 | 750,285 |
| **Provision for impairment loss** | | | | |
| Balance at 1 January 2009 | (71) | (1,668) | (5) | (1,744) |
| Provision for impairment | — | (80) | — | (80) |
| Amounts reversal during the year | 3 | 229 | 5 | 237 |
| Amounts transferred out during the year | 45 | — | — | 45 |
| Amounts written off during the year as uncollectible | 23 | 110 | — | 133 |
| Exchange differences | — | 1 | — | 1 |
| **At 31 December 2009** | — | (1,408) | — | (1,408) |
| **Net book value** | | | | |
| **At 31 December 2009** | 107,604 | 132,094 | 509,179 | 748,877 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 21 INVESTMENT SECURITIES *(Continued)*

***Bank***

| | Loans and receivables | Available-for-sale | Held-to-maturity | Total |
|---|---|---|---|---|
| **Before provision** | | | | |
| Balance at 1 January 2009 | 90,538 | 143,269 | 367,804 | 601,611 |
| Additions | 108,323 | 280,674 | 286,314 | 675,311 |
| Disposals (sale or redemption) | (91,442) | (291,141) | (145,133) | (527,716) |
| Gains from changes in fair value | — | (1,024) | — | (1,024) |
| Exchange differences | — | 790 | 35 | 825 |
| **At 31 December 2009** | 107,419 | 132,568 | 509,020 | 749,007 |
| **Provision for impairment loss** | | | | |
| Balance at 1 January 2009 | (71) | (1,668) | (5) | (1,744) |
| Provision for impairment | — | (72) | — | (72) |
| Amounts reversal during the year | 3 | 229 | 5 | 237 |
| Amounts transferred out during the year | 45 | — | — | 45 |
| Amounts written off during the year as uncollectible | 23 | 110 | — | 133 |
| Exchange differences | — | 1 | — | 1 |
| **At 31 December 2009** | — | (1,400) | — | (1,400) |
| **Net book value** | | | | |
| **At 31 December 2009** | 107,419 | 131,168 | 509,020 | 747,607 |

***Group***

| | Loans and receivables | Available-for-sale | Held-to-maturity | Total |
|---|---|---|---|---|
| **Before provision** | | | | |
| Balance at 1 January 2008 | 66,768 | 147,433 | 326,953 | 541,154 |
| Additions | 27,068 | 216,264 | 119,800 | 363,132 |
| Disposals (sale or redemption) | (2,836) | (217,418) | (78,536) | (298,790) |
| Gains from changes in fair value | — | 780 | — | 780 |
| Exchange differences | (26) | (3,381) | (334) | (3,741) |
| At 31 December 2008 | 90,974 | 143,678 | 367,883 | 602,535 |
| **Provision for** | | | | |
| **impairment loss** | (75) | (979) | — | (1,054) |
| Balance at 1 January 2008 | — | (1,118) | (5) | (1,123) |
| Provision for impairment | — | 33 | — | 33 |
| Amounts reversal during the year | 4 | 377 | — | 381 |
| Amounts written off during the year as Uncollectible | — | 19 | — | 19 |
| At 31 December 2008 | (71) | (1,668) | (5) | (1,744) |
| **Net book value** | | | | |
| At 31 December 2008 | 90,903 | 142,010 | 367,878 | 600,791 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 21 INVESTMENT SECURITIES *(Continued)*

***Bank***

| | Loans and receivables | Available-for-sale | Held-to-maturity | Total |
|---|---|---|---|---|
| **Before provision** | | | | |
| Balance at 1 January 2008 | 66,768 | 146,024 | 326,953 | 539,745 |
| Additions | 26,632 | 216,264 | 119,721 | 362,617 |
| Disposals (sale or redemption) | (2,836) | (217,117) | (78,536) | (298,489) |
| Gains from changes in fair value | — | 1,430 | — | 1,430 |
| Exchange differences | (26) | (3,332) | (334) | (3,692) |
| At 31 December 2008 | 90,538 | 143,269 | 367,804 | 601,611 |
| **Provision for impairment loss** | | | | |
| Balance at 1 January 2008 | (75) | (979) | — | (1,054) |
| Provision for impairment | — | (1,118) | (5) | (1,123) |
| Amounts reversal during the year | — | 33 | — | 33 |
| Amounts written off during the year as uncollectible | 4 | 377 | — | 381 |
| Exchange differences | — | 19 | — | 19 |
| At 31 December 2008 | (71) | (1,668) | (5) | (1,744) |
| **Net book value** | | | | |
| At 31 December 2008 | 90,467 | 141,601 | 367,799 | 599,867 |

Investment securities are analysed by issuer as follows:

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| **Securities — loans and receivables** | | |
| — Central governments and central banks | 55,347 | 63,988 |
| — Public sector entities | — | — |
| — Banks and other financial institutions | 2,212 | 962 |
| — Corporate entities | 50,045 | 25,953 |
| | 107,604 | 90,903 |
| **Securities — available-for-sale** | | |
| — Central governments and central banks | 15,674 | 44,662 |
| — Public sector entities | 862 | 1,025 |
| — Banks and other financial institutions | 56,225 | 59,675 |
| — Corporate entities | 59,333 | 36,648 |
| | 132,094 | 142,010 |
| **Securities — held-to-maturity** | | |
| — Central governments and central banks | 226,633 | 181,382 |
| — Public sector entities | 8,191 | 7,455 |
| — Banks and other financial institutions | 179,787 | 159,139 |
| — Corporate entities | 94,568 | 19,902 |
| | 509,179 | 367,878 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 21 INVESTMENT SECURITIES *(Continued)*

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| **Securities — loans and receivables** | | |
| — Central governments and central banks | 55,347 | 63,988 |
| — Public sector entities | — | — |
| — Banks and other financial institutions | 2,212 | 962 |
| — Corporate entities | 49,860 | 25,517 |
| | 107,419 | 90,467 |
| **Securities — available-for-sale** | | |
| — Central governments and central banks | 15,674 | 44,662 |
| — Public sector entities | 862 | 1,025 |
| — Banks and other financial institutions | 55,792 | 59,488 |
| — Corporate entities | 58,840 | 36,426 |
| | 131,168 | 141,601 |
| **Securities — held-to-maturity** | | |
| — Central governments and central banks | 226,633 | 181,383 |
| — Public sector entities | 8,188 | 7,453 |
| — Banks and other financial institutions | 179,716 | 159,067 |
| — Corporate entities | 94,483 | 19,896 |
| | 509,020 | 367,799 |

The certificates of deposit held and included in investment securities are analysed as follows:

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| **Available-for-sale, at fair value** | | |
| — Unlisted | 479 | — |

The maturity profile of certificates of deposit held analysed by the remaining period as at year end to the contractual maturity dates is as follows:

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Up to 3 months | 70 | — |
| 3 to 12 months | 137 | — |
| 1 to 5 years | 272 | — |
| | 479 | — |

(All amounts expressed in millions of RMB unless otherwise stated)

## 22 PROPERTY AND EQUIPMENT

***Group***

| | Land and Buildings | Construction in Progress | Equipment | Motor Vehicles | Property Improvement | Total |
|---|---|---|---|---|---|---|
| **Restated** | | | | | | |
| **Cost** | | | | | | |
| At 1 January 2009 | | | | | | |
| (Before restatement) | 24,670 | 5,467 | 7,277 | 304 | 1,892 | 39,610 |
| Changes of accounting policy | (2,860) | 185 | 5,000 | 253 | (657) | 1,921 |
| At 1 January 2009 (Restated) | 21,810 | 5,652 | 12,277 | 557 | 1,235 | 41,531 |
| Additions | 235 | 2,098 | 2,044 | 55 | 247 | 4,679 |
| Disposals | (251) | (14) | (1,058) | (38) | (177) | (1,538) |
| Transfers | 1,292 | (1,586) | — | — | 297 | 3 |
| At 31 December 2009 | 23,086 | 6,150 | 13,263 | 574 | 1,602 | 44,675 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2009 | | | | | | |
| (Before restatement) | — | — | (3,248) | (56) | (1,027) | (4,331) |
| Changes of accounting policy | (4,302) | — | (4,855) | (317) | 670 | (8,804) |
| At 1 January 2009 (Restated) | (4,302) | — | (8,103) | (373) | (357) | (13,135) |
| Charge for the period | (913) | — | (1,711) | (55) | (201) | (2,880) |
| Disposals | 169 | — | 897 | 35 | 117 | 1,218 |
| At 31 December 2009 | (5,046) | — | (8,917) | (393) | (441) | (14,797) |
| **Net book value** | | | | | | |
| At 31 December 2009 | 18,040 | 6,150 | 4,346 | 181 | 1,161 | 29,878 |

| | Land and Buildings | Construction in Progress | Equipment | Motor Vehicles | Property Improvement | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2008 | | | | | | |
| (Before restatement) | 23,769 | 4,028 | 5,982 | 244 | 1,520 | 35,543 |
| Changes of accounting policy | (2,652) | (37) | 4,958 | 314 | (658) | 1,925 |
| At 1 January 2008 (Restated) | 21,117 | 3,991 | 10,940 | 558 | 862 | 37,468 |
| Additions | 305 | 3,043 | 2,312 | 71 | 246 | 5,977 |
| Disposals | (780) | (3) | (975) | (72) | (84) | (1,914) |
| Transfers | 1,168 | (1,379) | — | — | 211 | — |
| At 31 December 2008 (Restated) | 21,810 | 5,652 | 12,277 | 557 | 1,235 | 41,531 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2008 | | | | | | |
| (Before restatement) | — | — | (2,567) | (5) | (772) | (3,344) |
| Changes of accounting policy | (4,069) | — | (4,831) | (378) | 522 | (8,756) |
| At 1 January 2008 (Restated) | (4,069) | — | (7,398) | (383) | (250) | (12,100) |
| Charge for the period | (772) | — | (1,523) | (55) | (157) | (2,507) |
| Disposals | 539 | — | 818 | 65 | 50 | 1,472 |
| At 31 December 2008 (Restated) | (4,302) | — | (8,103) | (373) | (357) | (13,135) |
| **Net book value** | | | | | | |
| At 31 December 2008 (Restated) | 17,508 | 5,652 | 4,174 | 184 | 878 | 28,396 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 22 PROPERTY AND EQUIPMENT *(Continued)*

***Group***

| | Land and Buildings | Construction in Progress | Equipment | Motor Vehicles | Property Improvement | Total |
|---|---|---|---|---|---|---|
| **Restated** | | | | | | |
| **Cost** | | | | | | |
| At 1 January 2007 | | | | | | |
| (Before restatement) | 21,615 | 787 | 4,888 | 135 | 1,201 | 28,626 |
| Changes of accounting policy | (1,301) | 102 | 4,708 | 452 | (816) | 3,145 |
| At 1 January 2007 (Restated) | 20,314 | 889 | 9,596 | 587 | 385 | 31,771 |
| Additions | 302 | 4,244 | 1,948 | 71 | 323 | 6,888 |
| Disposals | (484) | — | (604) | (100) | (3) | (1,191) |
| Transfers | 985 | (1,142) | — | — | 157 | — |
| At 31 December 2007 | 21,117 | 3,991 | 10,940 | 558 | 862 | 37,468 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2007 | | | | | | |
| (Before restatement) | — | — | (1,889) | 76 | (529) | (2,342) |
| Changes of accounting policy | (3,375) | — | (4,644) | (497) | 378 | (8,138) |
| At 1 January 2007 (Restated) | (3,375) | — | (6,533) | (421) | (151) | (10,480) |
| Charge for the period | (771) | — | (1,386) | (57) | (100) | (2,314) |
| Disposals | 77 | — | 521 | 95 | 1 | 694 |
| At 31 December 2007 | (4,069) | — | (7,398) | (383) | (250) | (12,100) |
| **Net book value** | | | | | | |
| At 31 December 2007 | 17,048 | 3,991 | 3,542 | 175 | 612 | 25,368 |

***Bank***

| | Land and Buildings | Construction in Progress | Equipment | Motor Vehicles | Property Improvement | Total |
|---|---|---|---|---|---|---|
| **Restated** | | | | | | |
| **Cost** | | | | | | |
| At 1 January 2009 | | | | | | |
| (Before restatement) | 23,657 | 5,467 | 7,262 | 302 | 1,892 | 38,580 |
| Changes of accounting policy | (2,476) | 185 | 4,937 | 243 | (661) | 2,228 |
| At 1 January 2009 (Restated) | 21,181 | 5,652 | 12,199 | 545 | 1,231 | 40,808 |
| Additions | 231 | 2,098 | 2,031 | 55 | 247 | 4,662 |
| Disposals | (251) | (14) | (1,057) | (38) | (177) | (1,537) |
| Transfers | 1,292 | (1,586) | — | — | 297 | 3 |
| At 31 December 2009 | 22,453 | 6,150 | 13,173 | 562 | 1,598 | 43,936 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2009 | | | | | | |
| (Before restatement) | — | — | (3,246) | (56) | (1,027) | (4,329) |
| Changes of accounting policy | (4,224) | — | (4,817) | (315) | 670 | (8,686) |
| At 1 January 2009 (Restated) | (4,224) | — | (8,063) | (371) | (357) | (13,015) |
| Charge for the period | (894) | — | (1,696) | (53) | (201) | (2,844) |
| Disposals | 169 | — | 897 | 35 | 117 | 1,218 |
| At 31 December 2009 | (4,949) | — | (8,862) | (389) | (441) | (14,641) |
| **Net book value** | | | | | | |
| At 31 December 2009 | 17,504 | 6,150 | 4,311 | 173 | 1,157 | 29,295 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 22 PROPERTY AND EQUIPMENT *(Continued)*

***Bank***

| | Land and Buildings | Construction in Progress | Equipment | Motor Vehicles | Property Improvement | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2008 | | | | | | |
| (Before restatement) | 22,530 | 4,012 | 5,976 | 244 | 1,520 | 34,282 |
| Changes of accounting policy | (2,058) | (38) | 4,916 | 306 | (658) | 2,468 |
| At 1 January 2008 (Restated) | 20,472 | 3,974 | 10,892 | 550 | 862 | 36,750 |
| Additions | 298 | 3,043 | 2,282 | 67 | 242 | 5,932 |
| Disposals | (740) | (3) | (975) | (72) | (84) | (1,874) |
| Transfers | 1,151 | (1,362) | — | — | 211 | — |
| At 31 December 2008 (Restated) | 21,181 | 5,652 | 12,199 | 545 | 1,231 | 40,808 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2008 | | | | | | |
| (Before restatement) | — | — | (2,568) | (5) | (772) | (3,345) |
| Changes of accounting policy | (4,031) | — | (4,806) | (377) | 522 | (8,692) |
| At 1 January 2008 (Restated) | (4,031) | — | (7,374) | (382) | (250) | (12,037) |
| Charge for the period | (731) | — | (1,507) | (52) | (157) | (2,447) |
| Disposals | 538 | — | 818 | 63 | 50 | 1,469 |
| At 31 December 2008 (Restated) | (4,224) | — | (8,063) | (371) | (357) | (13,015) |
| **Net book value** | | | | | | |
| At 31 December 2008 (Restated) | 16,957 | 5,652 | 4,136 | 174 | 874 | 27,793 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 22 PROPERTY AND EQUIPMENT *(Continued)*

***Bank***

| | Land and Buildings | Construction in Progress | Equipment | Motor Vehicles | Property Improvement | Total |
|---|---|---|---|---|---|---|
| **Restated** | | | | | | |
| **Cost** | | | | | | |
| At 1 January 2007 | | | | | | |
| (Before restatement) | 20,255 | 940 | 4,888 | 135 | 1,201 | 27,419 |
| Changes of accounting policy | (697) | (51) | 4,695 | 452 | (816) | 3,583 |
| At 1 January 2007 (Restated) | 19,558 | 889 | 9,583 | 587 | 385 | 31,002 |
| Additions | 302 | 4,227 | 1,913 | 63 | 324 | 6,829 |
| Disposals | (373) | — | (604) | (100) | (4) | (1,081) |
| Transfers | 985 | (1,142) | — | — | 157 | — |
| At 31 December 2007 | 20,472 | 3,974 | 10,892 | 550 | 862 | 36,750 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2007 | | | | | | |
| (Before restatement) | — | — | (1,889) | 76 | (529) | (2,342) |
| Changes of accounting policy | (3,375) | — | (4,639) | (498) | 378 | (8,134) |
| At 1 January 2007 (Restated) | (3,375) | — | (6,528) | (422) | (151) | (10,476) |
| Charge for the period | (728) | — | (1,367) | (55) | (100) | (2,250) |
| Disposals | 72 | — | 521 | 95 | 1 | 689 |
| At 31 December 2007 | (4,031) | — | (7,374) | (382) | (250) | (12,037) |
| **Net book value** | | | | | | |
| At 31 December 2007 | 16,441 | 3,974 | 3,518 | 168 | 612 | 24,713 |

All land and buildings of the Group are located outside Hong Kong, except for those of Hong Kong branch.

| | As at 31 December 2009 | 2008 Restated |
|---|---|---|
| Net book value of land and buildings of Hong Kong Branch | 212 | 238 |

As at 31 December 2009, property and equipment for which registration was not completed amounted to RMB1,716 million (2008: RMB946 million). However, this registration process does not affect the rights of the Bank to these assets.

(All amounts expressed in millions of RMB unless otherwise stated)

## 22 PROPERTY AND EQUIPMENT *(Continued)*

The carrying value of land and buildings is analysed based on the remaining terms of the leases as follows:

***Group***

| | As at 31 December 2009 | 2008 Restated |
|---|---|---|
| **Held in Hong Kong** | | |
| on long-term lease (over 50 years) | 198 | 222 |
| on medium-term lease (10–50 years) | 14 | 16 |
| on short-term lease (less than 10 years) | — | — |
| | 212 | 238 |
| **Held outside Hong Kong** | | |
| on long-term lease (over 50 years) | 21 | 29 |
| on medium-term lease (10–50 years) | 16,558 | 17,235 |
| on short-term lease (less than 10 years) | 1,249 | 6 |
| | 17,828 | 17,270 |
| | 18,040 | 17,508 |

***Bank***

| | As at 31 December 2009 | 2008 Restated |
|---|---|---|
| **Held in Hong Kong** | | |
| on long-term lease (over 50 years) | 198 | 222 |
| on medium-term lease (10–50 years) | 14 | 16 |
| on short-term lease (less than 10 years) | — | — |
| | 212 | 238 |
| **Held outside Hong Kong** | | |
| on long-term lease (over 50 years) | 21 | 29 |
| on medium-term lease (10–50 years) | 16,022 | 16,684 |
| on short-term lease (less than 10 years) | 1,249 | 6 |
| | 17,292 | 16,719 |
| | 17,504 | 16,957 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 23 OTHER ASSETS

**Group**

| | As at 31 December 2009 | 2008 Restated | As at 1 January 2008 Restated |
|---|---|---|---|
| Interest receivable | 12,887 | 11,535 | 9,037 |
| Settlement accounts | 2,924 | 1,878 | 1,254 |
| Other receivables | 2,643 | 2,146 | 4,524 |
| Less: impairment allowance | (1,044) | (1,155) | (1,511) |
| Land use rights (a) | 746 | 843 | 575 |
| Foreclosed assets | 711 | 381 | 493 |
| Leasehold improvement | 613 | 538 | 383 |
| Intangible assets | 405 | 524 | 677 |
| Prepaid rental expenses | 233 | 262 | 279 |
| Goodwill | 200 | 200 | 200 |
| Investment property (b) | 124 | 109 | 136 |
| Finance lease receivables (c) | 14,204 | 7,564 | 126 |
| Less: impairment allowance | (152) | (76) | — |
| Prepayment for finance leased assets | 848 | 217 | — |
| Others | 760 | 558 | 420 |
| | 36,102 | 25,524 | 16,593 |

**Bank**

| | As at 31 December 2009 | 2008 Restated | As at 1 January 2008 Restated |
|---|---|---|---|
| Interest receivable | 12,887 | 11,535 | 8,296 |
| Settlement accounts | 2,202 | 1,320 | 1,254 |
| Other receivables | 2,229 | 1,986 | 2,809 |
| Less: impairment allowance | (1,044) | (1,155) | (1,511) |
| Land use rights (a) | 746 | 843 | 575 |
| Foreclosed assets | 711 | 381 | 493 |
| Leasehold improvement | 613 | 538 | 383 |
| Intangible assets | 393 | 514 | 677 |
| Prepaid rental expenses | 233 | 262 | 279 |
| Investment property (b) | 124 | 109 | 136 |
| Others | 663 | 771 | 958 |
| | 19,757 | 17,104 | 14,349 |

(a) Land use rights are analysed based on the remaining terms of the leases as follows:

**Group and Bank**

| | For the year ended 2009 | 2008 |
|---|---|---|
| Held outside Hong Kong | | |
| on long-term lease (over 50 years) | — | — |
| on medium-term lease (10–50 years) | 619 | 690 |
| on short-term lease (less than 10 years) | 127 | 153 |
| | 746 | 843 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 23 OTHER ASSETS *(Continued)*

(b) The net book value of investment properties is analysed based on the remaining terms of the leases as follows:

***Group and Bank***

| | For the year ended 2009 | 2008 |
|---|---|---|
| Held in Hong Kong | | |
| on long-term lease (over 50 years) | 49 | 44 |
| on medium-term lease (10–50 years) | 75 | 65 |
| | 124 | 109 |

(c) The "finance lease receivables" is analysed as follows:

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Minimum finance lease receivable | | |
| No later than 1 year | 4,516 | 2,468 |
| Later than 1 year and no later than 5 years | 10,259 | 4,797 |
| Later than 5 years | 1,455 | 1,561 |
| **Total** | 16,230 | 8,826 |
| Gross investment in finance leases | 16,230 | 8,826 |
| Unearned finance income | (2,026) | (1,262) |
| Net investment in finance leases | 14,204 | 7,564 |
| The net investment in finance leases is analyzed as follows: | | |
| No later than 1 year | 3,935 | 2,048 |
| Later than 1 year and no later than 5 years | 9,020 | 4,202 |
| Later than 5 years | 1,249 | 1,314 |
| | 14,204 | 7,564 |
| The allowance for uncollectible finance lease receivable | (152) | (76) |
| Net finance lease receivable | 14,052 | 7,488 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 24 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Loans from PBOC | 11 | — |
| Deposits from other banks | 74,681 | 83,376 |
| Deposits from other financial institutions | 471,158 | 399,699 |
| Loans from other banks | 85,729 | 51,563 |
| Securities sold under repurchase agreements | 17,430 | 6,782 |
| Credit assets sold under repurchase agreements | 4,163 | 27,033 |
| Finance lease receivable under repurchase agreements | — | 1,000 |
| | 653,172 | 569,453 |

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Loans from PBOC | 11 | — |
| Deposits from other banks | 74,878 | 82,970 |
| Deposits from other financial institutions | 472,413 | 401,389 |
| Loans from other banks | 73,719 | 47,511 |
| Securities sold under repurchase agreements | 17,430 | 6,782 |
| Credit assets sold under repurchase agreements | 4,163 | 27,033 |
| | 642,614 | 565,685 |

## 25 FINANCIAL LIABILITIES HELD FOR TRADING

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Derivative financial instruments (Note 19) | 2,907 | 5,675 |
| Short position of securities held for trading | 113 | 11 |
| Debt securities in issue | 6,355 | 4,327 |
| | 9,375 | 10,013 |

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Derivative financial instruments (Note 19) | 2,907 | 5,675 |
| Short position of securities held for trading | 113 | 11 |
| Debt securities in issue | 6,355 | 4,329 |
| | 9,375 | 10,015 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 25 FINANCIAL LIABILITIES HELD FOR TRADING *(Continued)*

Debt securities in issue are:

| | 31 December 2009 Amount | 31 December 2009 Interest rate per Annum (%) | 31 December 2008 Amount | 31 December 2008 Interest rate per annum (%) |
|---|---|---|---|---|
| HKD short term Certificate of Deposit | — | — | 31 | 4.28% |
| HKD medium term Certificate of Deposit | — | — | 91 | 4.75% |
| USD medium Certificate of deposit | — | — | 91 | 4.87% |
| HKD fixed rate Certificate of deposit (maturing in Jan. 2009) | — | — | 174 | 2.66% |
| HKD fixed rate Certificate of deposit (maturing in Sep. 2010) | — | — | 263 | 3.46% |
| HKD floating rate Certificate of deposit (maturing in July 2009) | — | — | 1,059 | 3-mth HIBOR+0.08% |
| USD floating rate Certificate of deposit (maturing in July 2009) | — | — | 342 | 3-mth HIBOR+0.55% |
| HKD floating rate Certificate of deposit (maturing in Aug. 2009) | — | — | 838 | 3-mth HIBOR+0.42% |
| USD floating rate Certificate of deposit (maturing in Aug. 2009) | — | — | 342 | 3-mth HIBOR+0.60% |
| HKD floating rate Certificate of deposit (maturing in Dec. 2009) | — | — | 352 | 3-mth HIBOR+0.23% |
| USD floating rate Certificate of deposit (maturing in Aug. 2010) | 260 | 3-mth HIBOR+0.70% | 260 | 3-mth HIBOR+0.70% |
| USD floating rate Certificate of deposit (maturing in 22 Apr. 2010) | 1,024 | 3-mth LIBOR+0.30% | — | — |
| HKD floating rate Certificate of deposit (maturing in 6 Aug. 2010) | 238 | 3-mth HIBOR+0.20% | — | — |
| HKD floating rate Certificate of deposit (maturing in 12 Aug. 2010) | 203 | 3-mth HIBOR+0.24% | — | — |
| USD floating rate Certificate of deposit (maturing in 8 Sep. 2010) | 547 | 3-mth LIBOR+0.30% | — | — |
| USD floating rate Certificate of deposit (maturing in 21 Dec 2011) | 301 | 3-mth LIBOR+0.50% | — | — |
| USD floating rate Certificate of deposit (maturing in 21 Dec 2012) | 274 | 3-mth LIBOR+0.50% | — | — |
| USD floating rate Certificate of deposit (maturing in 23 Dec 2011) | 513 | 3-mth LIBOR+0.43% | — | — |
| USD floating rate Certificate of deposit (maturing in 28 Dec 2011) | 342 | 3-mth LIBOR+0.43% | — | — |
| Others (amount below RMB200 million) | 2,653 | — | 484 | — |
| **Total** | 6,355 | | 4,327 | |

(All amounts expressed in millions of RMB unless otherwise stated)

## 26 DUE TO CUSTOMERS

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Corporate current deposits | 865,097 | 655,101 |
| Corporate time deposits | 693,745 | 525,106 |
| Individual current deposits | 313,835 | 247,428 |
| Individual time deposits | 492,355 | 428,136 |
| Other deposits | 7,023 | 10,044 |
| | 2,372,055 | 1,865,815 |
| Including: | | |
| Pledged deposits held as collateral | 235,060 | 191,642 |

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Corporate current deposits | 865,696 | 655,668 |
| Corporate time deposits | 693,862 | 525,293 |
| Individual current deposits | 313,823 | 247,425 |
| Individual time deposits | 492,355 | 428,136 |
| Other deposits | 7,023 | 10,044 |
| | 2,372,759 | 1,866,566 |
| Including: | | |
| Pledged deposits held as collateral | 235,060 | 191,642 |

## 27 OTHER LIABILITIES

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Interest payable | 25,156 | 22,259 |
| Settlement accounts | 13,660 | 7,824 |
| Dividends payable | 67 | 130 |
| Staff benefits payable | 4,744 | 4,328 |
| Business and other tax payable | 1,807 | 1,648 |
| Unsettled obligation | 202 | 370 |
| Provision for outstanding litigation | 451 | 336 |
| Deposits received for finance lease | 800 | 589 |
| Others | 6,462 | 5,715 |
| | 53,349 | 43,199 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 27 OTHER LIABILITIES *(Continued)*

***Bank***

| | As at 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Interest payable | 25,124 | 22,243 |
| Settlement accounts | 13,034 | 7,678 |
| Dividends payable | 67 | 130 |
| Staff benefits payable | 4,581 | 4,210 |
| Business and other tax payable | 1,789 | 1,634 |
| Unsettled obligation | 202 | 370 |
| Provision for outstanding litigation | 451 | 336 |
| Others | 5,024 | 4,452 |
| | 50,272 | 41,053 |

## 28 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% for the year ended 31 December 2009 (Year 2008: 25%) for transactions in Mainland China. Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 16.5% for the period ended 31 December 2009 (Year 2008: 16.5%) for transactions in Hong Kong.

The movement in the deferred income tax account is as follows:

***Group***

| | Year ended 31 December | | |
|---|---|---|---|
| | 2009 | 2008<br>Restated | 2007<br>Restated |
| Balance at beginning of the year | 4,131 | 3,539 | 4,798 |
| Credit/(debit) to statement of comprehensive income | 1,102 | 912 | (1,148) |
| Available-for-sale securities — fair value remeasurement | 553 | (320) | (111) |
| At end of the year | 5,786 | 4,131 | 3,539 |

***Bank***

| | Year ended 31 December | | |
|---|---|---|---|
| | 2009 | 2008<br>Restated | 2007<br>Restated |
| Balance at beginning of the year | 4,172 | 3,673 | 4,826 |
| Credit/(debit) to statement of comprehensive income | 1,056 | 910 | (1,148) |
| Available-for-sale securities — fair value remeasurement | 627 | (411) | (5) |
| At end of the year | 5,855 | 4,172 | 3,673 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 28 DEFERRED INCOME TAXES *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

***Group***

| | As at 31 December 2009 | 2008 Restated | As at 1 January 2008 Restated |
|---|---|---|---|
| **Deferred income tax liabilities** | | | |
| Available-for-sale securities | (354) | (1,024) | (623) |
| Other temporary differences | (989) | (991) | (404) |
| | (1,343) | (2,015) | (1,027) |
| **Deferred income tax assets** | | | |
| Impairment allowances for loans | 5,092 | 3,730 | 2,498 |
| Impairment allowances for investments | 327 | 398 | 103 |
| Impairment of other assets | 518 | 703 | 1,001 |
| Unpaid salaries and bonuses | 721 | 620 | 418 |
| Retirement sub-pension payable | 143 | 159 | 137 |
| Outstanding litigation and compensation | 163 | 177 | 219 |
| Available-for-sale securities | 3 | 120 | 39 |
| Other temporary differences | 162 | 239 | 151 |
| | 7,129 | 6,146 | 4,566 |
| **Net deferred income tax assets** | 5,786 | 4,131 | 3,539 |

***Bank***

| | As at 31 December 2009 | 2008 Restated | As at 1 January 2008 Restated |
|---|---|---|---|
| **Deferred income tax liabilities** | | | |
| Available-for-sale securities | (289) | (1,031) | (541) |
| Other temporary differences | (991) | (978) | (400) |
| | (1,280) | (2,009) | (941) |
| **Deferred income tax assets** | | | |
| Impairment allowances for loans | 5,092 | 3,730 | 2,498 |
| Impairment allowances for investments | 327 | 398 | 103 |
| Impairment of other assets | 569 | 746 | 1,052 |
| Unpaid salaries and bonuses | 675 | 620 | 418 |
| Retirement sub-pension payable | 143 | 159 | 137 |
| Outstanding litigation and compensation | 163 | 177 | 219 |
| Available-for-sale securities | 3 | 118 | 39 |
| Other temporary differences | 163 | 233 | 148 |
| | 7,135 | 6,181 | 4,614 |
| **Net deferred income tax assets** | 5,855 | 4,172 | 3,673 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 28 DEFERRED INCOME TAXES *(Continued)*

The above net deferred income tax assets are disclosed separately on the statement of financial position based on different responsible taxation authorities:

***Group***

| | As at 31 December 2009 | 2008 Restated | As at 1 January 2008 Restated |
|---|---|---|---|
| Deferred income tax assets | 5,821 | 4,135 | 3,792 |
| Deferred income tax liabilities | (35) | (4) | (253) |

***Bank***

| | As at 31 December 2009 | 2008 Restated | As at 1 January 2008 Restated |
|---|---|---|---|
| Deferred income tax assets | 5,864 | 4,176 | 3,820 |
| Deferred income tax liabilities | (9) | (4) | (147) |

Deferred income taxes in the statement of comprehensive income comprise the following temporary differences:

***Group***

| | As at 31 December 2009 | 2008 Restated |
|---|---|---|
| Impairment allowances for loans: | | |
| Additional impairment allowances for loans | 1,936 | 2,108 |
| Utilization | (574) | (876) |
| Sub-total | 1,362 | 1,232 |
| Impairment allowances for investments | (71) | 295 |
| Impairment of other assets | (185) | (298) |
| Outstanding litigation and compensation | (14) | (42) |
| Unpaid salaries and bonuses | 101 | 202 |
| Retirement sub-pension payable | (16) | 22 |
| Other temporary differences | (75) | (499) |
| | 1,102 | 912 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 29 RETIREMENT BENEFIT OBLIGATIONS

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to the statement of comprehensive income in the period to which they relate.

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on government bonds at the reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses, changes in actuarial assumptions and amendments to pension plan are charged or credited to the statement of comprehensive income as they occur. The amounts recognised in the statement of financial position represent the present value of unfunded obligations plus any unrecognised actuarial gains and losses minus any unrecognised past service cost.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary and recognised in the statement of comprehensive income as incurred.

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations. They are accounted for in the statement of comprehensive income in the period when the payment is made.

| | As at 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Expenses incurred for retirement benefit plans | 897 | 785 |
| Gains/(expenses) incurred for supplementary retirement benefits | (24) | 123 |
| Expenses incurred for corporate annuity plan | 246 | — |
| Total | 1,119 | 908 |

| | As at 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Statement of financial position obligations for: | | |
| — Pension benefits | 572 | 636 |

| | Year ended 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Statement of comprehensive income charge for: | | |
| — Pension benefits | (24) | 123 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 29 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

The amounts recognised in the statement of financial position are determined as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Present value of unfunded obligations | 572 | 636 |
| Unrecognised actuarial losses | — | — |
| Unrecognised past service cost | — | — |
| Liability in the statement of financial position | 572 | 636 |

Movements in the defined obligation over the year are as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Beginning of the year | 636 | 546 |
| Retirement benefits paid | (40) | (33) |
| Current service cost | — | 2 |
| Interest cost | 21 | 28 |
| Net actuarial (gains)/losses | (45) | 20 |
| Past service cost | — | 73 |
| End of the year | 572 | 636 |

The amounts recognised in the statement of comprehensive income are as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Current service cost | — | 2 |
| Interest cost | 21 | 28 |
| Net actuarial (gains)/losses recognised during the period | (45) | 20 |
| Past service cost | — | 73 |
| Total, included in staff costs | (24) | 123 |

The principal actuarial assumptions used are as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Discount rate | 4.08% | 3.56% |
| Pension plan inflation rate | 4.00% | 4.00% |

(All amounts expressed in millions of RMB unless otherwise stated)

## 29 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

### Mortality rate

Assumptions regarding future mortality experience are set based on published statistics by China Insurance Regulatory Commission.

The following table lists an average life expectancy in years of a pensioner retiring at age 60 for male and 55 for female:

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Male | 22.20 | 22.20 |
| Female | 29.52 | 29.52 |

## 30 DEBTS ISSUED

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Floating rate subordinated debt — 2009[(a)] | — | 12,000 |
| Fixed rate subordinated debt — 2022[(b)] | 16,000 | 16,000 |
| Fixed rate subordinated debt — 2017[(b)] | 9,000 | 9,000 |
| Fixed rate debt[(c)] | 3,000 | 3,000 |
| Fixed rate subordinated debt — 2019[(d)] | 11,500 | — |
| Fixed rate subordinated debt — 2024[(d)] | 13,500 | — |
| | 53,000 | 40,000 |

(a) The RMB12 Billion floating rate subordinated term debt carried interest based on at the 1 year fixed deposit rate set by the PBOC plus 2.52% and matured in July 2009.

(b) The Group issued following subordinated debts on 6 March 2007 in the inter-bank market of Mainland China:

The first tranche of the subordinated debt amounting to RMB16 Billion issued on 6 March 2007 has a fixed coupon rate of 4.13% for the paid annually. The Group has the option to extend all of the bonds at face value for another five years on 8 March 2017 at a fixed rate of original coupon rate plus 3%.

The second tranche of the subordinated debt amounting to RMB9 Billion issued on 6 March 2007 has a fixed coupon rate of 3.73% for the first 5 years, paid annually. The Group has the option to extend all of the bonds at face value for another five years on 8 March 2012 at a fixed rate of original coupon rate plus 3%.

(c) According to the resolution of the Annual General Meeting on 6 June 2008 and the approval from the PBOC, the Group issued a RMB3 billion term debt, which has a maturity of two years and bears interest at the annual rate of 3.25%, in Hong Kong on 29 July 2008.

(d) The Group issued the first tranche of a subordinated debt amounting to RMB25 billion between 1 July and 3 July 2009 in the inter-bank market of Mainland China:

Type I subordinated debt amounting to RMB11.5 Billion issued between 1 July and 3 July 2009 has a fixed coupon rate of 3.28% for the first five years, paid annually. The Group has the option to extend all of the bonds at face value for another five years on 3 July 2014 at a fixed rate of original coupon rate plus 3%.

Type II subordinated debt amounting to RMB13.5 Billion issued between 1 July and 3 July 2009 has a fixed coupon rate of 4.00% for the first ten years, paid annually. The Group has the option to extend all of the bonds at face value for another five years on 3 July 2019 at a fixed rate of original coupon rate plus 3%.

## 31 SHARE CAPITAL AND CAPITAL SURPLUS

***Bank***

| | Number of shares (in millions) | Ordinary shares of RMB1 each (RMB million) |
|---|---|---|
| 1 January 2009 & 31 December 2009 | 48,994 | 48,994 |

The shareholding structures of the Bank as at 31 December 2009 are as follow:

***Bank***

| | Number of shares (in millions) | Approximated percentage of the Bank's issued share capital |
|---|---|---|
| Domestic Shares in issue | 25,930 | 52.92% |
| H shares offered under the Global Offering and converted from Domestic Shares | 23,064 | 47.08% |
| Total number of shares | 48,994 | 100.00% |

Generally, transactions of the following nature are recorded in the capital surplus:

(a) share premium arising from the issue of shares at prices in excess of their par value;

(b) donations received from shareholders; and

(c) any other items required by the PRC regulations to be so treated.

Capital surplus can be utilized to offset prior years' accumulated losses, for the issue of bonus shares or for increasing paid-up capital as approved by the Shareholders.

As at 31 December 2009 and 2008 the Group's capital surplus is listed as follow:

***Group and Bank***

| | As at 1 January 2009 | Addition | Disposal | As at 31 December 2009 |
|---|---|---|---|---|
| Share premium | 43,761 | — | — | 43,761 |
| Property revaluation gain designated by MOF | 472 | — | — | 472 |
| Donation of non-cash assets | 145 | — | — | 145 |
| Others | 29 | — | (3) | 26 |
| Total | 44,407 | — | (3) | 44,404 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 31 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

***Group and Bank***

| Restated | As at 1 January 2008 | Addition | Disposal | As at 31 December 2008 |
|---|---|---|---|---|
| Share premium | 43,761 | — | — | 43,761 |
| Property revaluation gain designated by MOF | 472 | — | — | 472 |
| Donation of non-cash assets | 145 | — | — | 145 |
| Others | 29 | — | — | 29 |
| Total | 44,407 | — | — | 44,407 |

## 32 RESERVES AND RETAINED EARNINGS

Pursuant to the PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the passing of resolutions to be considered at the Bank's General Meeting.

In accordance with the PRC legislation, 10% of the net distributable profit of the Bank (Note 33), as determined under the PRC accounting regulations, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank.

Pursuant to the PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the degree of overall unidentified loss exposure, normally no lower than 1% of the ending balance of risk assets. The statutory general reserve is an integral part of equity interest but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority ('HKMA') is also included in above statutory general reserve.

In accordance with the PRC legislation, after the statutory reserve has been transferred from the net distributable profit of the bank, discretionary reserve is recognised in the statement of financial position upon approval by the shareholders at the General Meeting.

Based on the 2008 financial results, the Directors proposed the following profit appropriation on 18 March 2009, which was approved by the shareholders at the Annual General Meeting on 8 May 2009:

| | Amount arising from the prior year, approved and processed in 2008 and 2007 | |
|---|---|---|
| | 2008 | 2007 |
| Statutory reserve | 2,830 | 1,993 |
| Statutory general reserve | 5,882 | 1,938 |
| Discretionary reserve | 6,900 | 8,511 |
| | 15,612 | 12,442 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 32 RESERVES AND RETAINED EARNINGS *(Continued)*

On 30 March 2010, the Directors proposed the following profit appropriation, which is still subject to the approval by the shareholders at the General Meeting:

| | 2009 |
|---|---|
| Statutory reserve | 2,956 |
| Statutory general reserve | 5,506 |
| Discretionary reserve | 15,285 |
| | 23,747 |

## 33 DIVIDENDS

| | Year ended 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Paid in the year | 9,862 | 13,407 |

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(a) Making up cumulative losses from prior years, if any;

(b) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under PRC accounting regulations;

(c) Allocations to statutory general reserve;

(d) Allocations to the discretionary revenue reserve fund if approved by the Bank's General Meeting. These funds form part of the shareholders' equity.

In accordance with the relevant regulations, the distributable profit is deemed to be the lesser of (i) the distributable profit determined in accordance with PRC GAAP and (ii) the distributable profit determined in accordance with IFRS.

The dividends are recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting.

In addition, in accordance with the Articles of Association for the Bank, the Board of Directors was authorized to approve the profit appropriation plan within 40% of the distributable profit in the half year. On 19 August 2009, the directors approved a cash dividend of RMB0.10 per share, amounting to RMB4,899 million.

At 31 December 2009, the aggregate amount of distributable profit was RMB28,646 million (after interim profit distribution of RMB0.10 per share), being the distributable profit determined in accordance with PRC GAAP (2008: IFRS). On 30 March 2010, the directors proposed a cash dividend of RMB0.10 per share (2008: RMB0.10), amounting to RMB4,899 million (2008: RMB4,899 million), which has not been approved by shareholders by now.

(All amounts expressed in millions of RMB unless otherwise stated)

## 34 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

### Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group commits to extend to customers:

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Guarantees | 177,357 | 154,918 |
| Letters of credit | 37,452 | 25,637 |
| Acceptances | 233,871 | 193,826 |
| Other commitments with an original maturity of | | |
| — Under 1 year | 137,773 | 95,564 |
| — 1 year and over | 26,931 | 6,937 |
| | 613,384 | 476,882 |

### Capital expenditure commitments

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Capital expenditure commitments for buildings | 394 | 357 |

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Capital expenditure commitments for buildings | 393 | 355 |

### Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancelable operating leases in respect of buildings are as follows:

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Not later than 1 year | 1,086 | 1,014 |
| Later than 1 year and not later than 5 years | 2,738 | 2,454 |
| Later than 5 years | 1,118 | 972 |
| | 4,942 | 4,440 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 34 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

### Operating lease commitments *(Continued)*

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Not later than 1 year | 1,074 | 998 |
| Later than 1 year and not later than 5 years | 2,731 | 2,435 |
| Later than 5 years | 1,118 | 972 |
| | 4,923 | 4,405 |

### Commitments on security underwriting and bond acceptance

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Outstanding balance on security underwriting | 49,317 | 6,700 |
| Outstanding balance on bond acceptance[(a)] | 23,622 | 20,345 |

(a) The Bank is entrusted by the MOF to underwrite certain Certificates of Treasury Bonds. The investors of Certificates of Treasury Bond have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem those bonds. The redemption price is the principal value of the Certificates of Treasury Bond plus unpaid interest.

The original maturities of these bonds vary from 1 to 5 years.

The MOF will not provide funding for the early redemption of these Certificates of Treasury Bond on a back-to-back basis but will pay interest through maturity and repay the principal at maturity.

### Legal proceedings

A number of legal proceedings are initiated by third parties against the Group as defendant. The total outstanding claims at end of the year are as follows:

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Outstanding claims | 1,379 | 1,298 |
| Provision for outstanding litigation | 451 | 336 |

## 35 ASSETS PLEDGED

Assets are pledged as collateral under repurchase agreements with other banks and financial institutions and for security deposits relating to local futures, options and stock exchange memberships.

***Group and Bank***

| | Pledged Assets As at 31 December 2009 | 2008 | Related Liabilities As at 31 December 2009 | 2008 |
|---|---|---|---|---|
| Trading securities | 19 | 19 | — | 10 |
| Investment securities | 18,722 | 15,010 | 17,430 | 7,078 |
| Loans | 4,163 | 27,033 | 4,471 | 27,033 |
| Finance lease receivable | — | 1,091 | — | 1,000 |
| | 22,904 | 43,153 | 21,901 | 35,121 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 35 ASSETS PLEDGED *(Continued)*

The Group accepts collateral that it is permitted to sell or re-pledge in connection with its reverse repurchase agreements.

As at 31 December 2009, the fair value of such collateral accepted by the Group and the Bank amounted to RMB700 million (2008: RMB4,825 million). As at 31 December 2009 and 31 December 2008, neither the Group nor the Bank sold or re-pledged such collateral received. These transactions are conducted under standard and normal business terms.

## 36 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Financial guarantees and credit related commitments | 195,763 | 156,476 |

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

## 37 OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR

| As at 31 December 2009 | Before tax amount | Tax expense (benefit) | Net of tax amount |
|---|---|---|---|
| Other comprehensive (loss)/income | | | |
| Available-for-sale securities | (2,250) | 553 | (1,697) |
| Changes in fair value taken to equity, | (1,052) | 257 | (795) |
| Changes in fair value transferred to net profit | (1,198) | 296 | (902) |
| Translation difference on foreign operations | 105 | — | 105 |
| Transfer out of investment property revaluation gain | (3) | — | (3) |
| Other comprehensive (loss)/income for the year | (2,148) | 553 | (1,595) |
| As at 31 December 2008 | | | |
| Other comprehensive (loss)/income | | | |
| Available-for-sale securities | 1,462 | (320) | 1,142 |
| Changes in fair value taken to equity, | 780 | (135) | 645 |
| Changes in fair value transferred to net profit | 682 | (185) | 497 |
| Translation difference on foreign operations | (533) | — | (533) |
| Other comprehensive (loss)/income for the year | 929 | (320) | 609 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 38 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### (a) Analysis of changes in financing during the year

| | Dividends | Share capital | Capital surplus | Term debt (including interest payable) |
|---|---|---|---|---|
| At 1 January 2009 | 130 | 48,994 | 44,407 | 41,265 |
| Net cash outflow | (9,862) | — | — | (13,960) |
| Debt issued | — | — | — | 25,000 |
| Interest expense on debt issued | — | — | — | 2,011 |
| Dividends | 9,799 | — | — | — |
| Transfer out of investment property revaluation gain | — | — | (3) | — |
| At 31 December 2009 | 67 | 48,994 | 44,404 | 54,316 |
| At 1 January 2008 | 1,289 | 48,994 | 44,407 | 38,207 |
| Net cash outflow | (13,407) | — | — | (1,666) |
| Debt issued | — | — | — | 3,000 |
| Interest expense on debt issued | — | — | — | 1,724 |
| Dividends | 12,248 | — | — | — |
| At 31 December 2008 | 130 | 48,994 | 44,407 | 41,265 |

### (b) Analysis of the balance of cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than 90 days used for the purpose of meeting short-term cash commitments:

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Cash and balances with central banks (Note 16) | 100,461 | 109,993 |
| Due from other banks and financial institutions (Note 17(a)) | 68,037 | 115,739 |
| | 168,498 | 225,732 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 39 PRINCIPAL SUBSIDIARIES

### (a) Particulars of the principal subsidiaries are as follows:

| Name of subsidiaries | Place of incorporation and operation | Date of incorporation | Issued and fully paid up share capital | Bank equity interest % | Principal activities |
|---|---|---|---|---|---|
| Kiu Fai Company Limited | Hong Kong | 18 Mar 1967 | HKD3,000,000 | 100 | Property holding and investment holding |
| BCOM Finance (Hong Kong) Limited | Hong Kong | 13 Mar 1979 | HKD90,000,000 | 100 | Deposit taking |
| Amiwell Company Limited | Hong Kong | 18 Mar 1980 | HKD2 | 100 | Property holding and investment |
| Bank of Communications (Nominee) Company Limited | Hong Kong | 21 Aug 1981 | HKD200,000 | 100 | Investment holding |
| Bank of Communications Trustee Limited | Hong Kong | 13 Oct 1981 | HKD50,000,000 | 100 | Trustee Service |
| Chiao Tung Developments Limited | Hong Kong | 5 Feb 1985 | HKD50,000,000 | 100 | Investment holding |
| Expectation Investment Limited | Hong Kong | 29 Jan 1997 | HKD2 | 100 | Investment holding |
| BOCOM International Holdings Company Limited (former known as BOCOM Securities Company Limited) | Hong Kong | 3 Jun 1998 | HKD2,000,000,000 | 100 | Securities dealing |
| Unique Profit Limited | Hong Kong | 12 Jun 1998 | HKD10,000 | 100 | Property holding |
| Creative Mart Limited | Hong Kong | 12 May 1999 | HKD100 | 100 | Property development |
| Star Wealthy Secretarial Company Limited | Hong Kong | 23 Aug 1999 | HKD2,000,000 | 100 | Investment holding |
| City Wisdom Limited | Hong Kong | 19 Jul 2000 | HKD10,000 | 100 | Property holding |
| Eastern Sky Limited | Hong Kong | 21 Aug 2000 | HKD10,000 | 100 | Property development |
| China BOCOM Insurance Company Limited (former known as China Communications Insurance Company Limited) | Hong Kong | 1 Nov 2000 | HKD400,000,000 | 100 | General insurance and reinsurance |
| Bank of Communications Charitable Foundation Limited | Hong Kong | 19 Jun 2002 | – | 100 | Charity fund |
| BOCOM International Asset Management Limited[1] | Hong Kong | 18 May 2007 | HKD5,000,000 | 100 | Asset Management |
| BOCOM International Securities Limited[1] | Hong Kong | 18 May 2007 | HKD510,000,000 | 100 | Securities dealing |
| BOCOM International (Asia) Limited[1] | Hong Kong | 18 May 2007 | HKD10,000,000 | 100 | Securities dealing |
| Career Computer (Shenzhen) Company Limited[2] | PRC | 22 Dec 1997 | USD3,000,000 | 100 | Development of computer software and hardware, electronic equipments and communication network |
| Bank of Communications Schroder Fund Management Co., Ltd.[2] | PRC | 4 Aug 2005 | RMB200,000,000 | 65 | Fund Management |
| Bank of Communications International Trust Co., LTD.[2] | PRC | 18 Oct 2007 | RMB1,200,000,000 | 85 | Trust investment |
| Bank of Communications Financial Leasing Co., Ltd.[2] | PRC | 20 Dec 2007 | RMB2,000,000,000 | 100 | Financial leasing |
| Dayi Bocom Xingmin Rural Bank Co.,Ltd.[2] | PRC | 15 Aug 2008 | RMB60,000,000 | 61 | Commercial banking |

(All amounts expressed in millions of RMB unless otherwise stated)

## 39 PRINCIPAL SUBSIDIARIES *(Continued)*

### (a) Particulars of the principal subsidiaries are as follows: *(Continued)*

Note 1: These companies are the indirect subsidiaries of the Bank. BOCOM International Asset Management Limited, BOCOM International Securities Limited and BOCOM International (Asia) Limited are all subsidiaries of BOCOM International Holdings Company Limited.

Note 2: These subsidiaries incorporated in PRC are all limited liability companies.

#### *(1) Auditors of subsidiaries*

For the year ended 31 December 2009, PricewaterhouseCoopers Hong Kong CPAs 羅兵咸永道會計師事務所 are the auditors of all principal subsidiaries incorporated in Hong Kong.

For the years ended 31 December 2008 and 2009, Career Computer (Shenzhen) Company Limited was audited by Shenzhen Peng Cheng CPAs Limited 深圳鵬城會計師事務所.

The Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications Financial Leasing Co., Ltd. are audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Co. 普華永道中天會計師事務所有限公司.

Bank of Communications International Trust Co., LTD. is audited by Deloitte Touche Tohmatsu CPA Ltd. 德勤華永會計師事務所有限公司.

Dayi Bocom Xingmin Rural Bank Co., Ltd. is audited by Sichuan Zhong Fu CPAs Limited 四川省中服會計師事務所有限公司.

### (b) Investment costs and balances with subsidiaries:

| | Year ended 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Investment cost | 5,660 | 4,782 |
| Loans and advances to customers | 2,281 | 871 |
| Other assets | 16 | 282 |
| Due to other banks and financial institutions | (1,452) | (1,284) |
| Financial liabilities held for trading | — | (2) |
| Due to customers | (770) | (756) |
| Other liabilities | (35) | (307) |
| Total | 5,700 | 3,586 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 40 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is subject to the control of the State Council of the PRC Government.

### (a) Transactions with the MOF

As at 31 December 2009, The MOF holds 12,975 million shares of the bank which represents 26.48% of total share capital of the Bank. The Group enters into banking transactions with the MOF in the normal course of business. These include the purchase and redemption of investment securities issued by the MOF. The volumes of related party transactions, outstanding balances at the period end, and related income for the year are as follows:

***Treasury bonds***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Purchase from MOF during the year | 65,992 | 38,022 |
| Redemption to MOF during the year | (63,617) | (44,341) |
| Interest income | 6,720 | 5,892 |

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Outstanding balance of treasury bonds at beginning of the year | 173,825 | 161,303 |
| Outstanding balance of treasury bonds at end of the year | 197,976 | 173,825 |
| Period range of the bonds | 3 months–30 years | 3 months–30 years |
| Interest rate range of the bonds | 0.89%–2.16% | 2.12%–2.16% |

***Deposits***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Time Deposits | 16,340 | 3,200 |
| Period range of the deposits | 3 months–12 months | 3 months–6 months |
| Interest rate range of the deposits | 1.98%–2.16% | 2.5%–4.15% |

(All amounts expressed in millions of RMB unless otherwise stated)

# 40 RELATED PARTY TRANSACTIONS *(Continued)*

## (a) Transactions with the MOF *(Continued)*

***Interest expense***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Interest expense | 216 | 79 |

## (b) Transactions with National Council for Social Security Fund

The Group enters into banking transactions with National Council for Social Security Fund in the normal course of business. The main business is deposits, which are carried out under commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the period end, and related expenses for the year are as follows:

***Due to customers***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Outstanding balance at beginning of the year | 13,033 | 13,733 |
| Deposited during the year | 154,136 | 4,725 |
| Repaid during the year | (153,819) | (5,425) |
| Outstanding balance at end of the year | 13,350 | 13,033 |
| Interest expense | 751 | 764 |

## (c) Transactions with HSBC

As at 31 December 2009, The Hong Kong and Shanghai Banking Corporation Limited ('HSBC') holds 9,115 million shares of the bank which represents 18.6% of total share capital of the Bank. Transactions between the Group and HSBC are mainly banking activities under commercial terms and at market rates. Details of transaction volumes since the above share acquisition are set out below:

***(i) Due from HSBC***

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Outstanding at beginning of the year | 799 | 1,415 |
| Granted during the year | 372,758 | 301,086 |
| Repaid during the year | (373,319) | (301,702) |
| Outstanding at end of the year | 238 | 799 |
| Interest income | 20 | 94 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 40 RELATED PARTY TRANSACTIONS *(Continued)*

### (c) Transactions with HSBC *(Continued)*

#### *(ii) Due to HSBC*

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Outstanding at beginning of the year | 389 | 1,769 |
| Deposited during the year | 119,588 | 92,652 |
| Repaid during the year | (116,763) | (94,032) |
| Outstanding at end of the year | 3,214 | 389 |
| Interest expense | 9 | 88 |

#### *(iii) Investment securities issued by HSBC*

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Interest income | 16 | 16 |

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Outstanding balance | 1,088 | 350 |

#### *(iv) Unsettled derivative transactions*

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Unsettled derivative transactions notional amount | 34,775 | 20,531 |
| Fair value | (68) | (3) |

(All amounts expressed in millions of RMB unless otherwise stated)

## 40 RELATED PARTY TRANSACTIONS *(Continued)*

### (d) Transactions with directors and senior management

The Group enters into banking transactions with directors and senior management in the normal course of business. These include loans and deposits, which are carried out under commercial terms and at market rates. The volumes of related party transactions during each of the years ended 31 December 2009 and 2008, outstanding balances at the reporting date are as follows:

#### *(i) Loans*

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Outstanding at beginning of the year | 187 | 72 |
| Granted during the year | 2 | 122 |
| Repayment during the year | (63) | (7) |
| Outstanding at end of the year | 126 | 187 |

No allowance for impairment has been recognised in respect of loans granted to directors and senior management.

#### *(ii) Deposits*

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Outstanding at beginning of the year | 39 | 72 |
| Deposited during the year | 132 | 8 |
| Repaid during the year | (62) | (41) |
| Outstanding at end of the year | 109 | 39 |

## 41 SEGMENT ANALYSIS

In the financial year of 2009, segment reporting by the Group was prepared for the first time in accordance with IFRS 8, ‘Operating Segments’.

Segment information for 2008 that is reported as comparative information for 2009 has been restated to conform to the requirements of IFRS 8.

The Bank’s senior management as represented by the governor reviewed the Bank’s operation by the particular economic areas in which the Bank’s branches and subsidiaries providing products or services. The Bank’s operating segments are decided upon location of the assets, as the Bank’s branches mainly serve local customers with only a few customers from other regions.

## 41 SEGMENT ANALYSIS *(Continued)*

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and the investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

(i) Northern China — Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;

(ii) North Eastern China — Including the following provinces: Liaoning, Jilin, Heilongjiang;

(iii) Eastern China — Including the following provinces: Shanghai (excluding head office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(iv) Central & Southern China — Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;

(v) Western China — Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shannxi, Gansu, Qinghai, Ningxia and Xinjiang;

(vi) Head office;

(vii) Overseas — Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt and Macao.

There were no changes in the reportable segments during the year.

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments will be presented on a net basis.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the segments.

(All amounts expressed in millions of RMB unless otherwise stated)

## 41 SEGMENT ANALYSIS *(Continued)*

### (a) Operating segment information

| | Northern China | North-eastern China | Eastern China | Central & Southern China | Western China | Head Office | Overseas | Eliminations & Consolidated | Group Total |
|---|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2009** | | | | | | | | | |
| **Assets** | | | | | | | | | |
| Cash and balances with central banks | 6,470 | 3,228 | 19,829 | 10,732 | 6,521 | 361,505 | 26,711 | – | 434,996 |
| Due from other banks and financial institutions | 21,165 | 333 | 95,228 | 7,526 | 2,314 | 75,684 | 20,421 | – | 222,671 |
| Financial assets held for trading | – | – | – | 200 | – | 18,279 | 10,775 | – | 29,254 |
| Loans and advances to customers | 326,345 | 87,949 | 735,589 | 351,878 | 168,314 | 31,788 | 99,675 | – | 1,801,538 |
| Investment securities | | | | | | | | | |
| – loans and receivables | 708 | 553 | 1,449 | 966 | 609 | 103,319 | – | – | 107,604 |
| – available-for-sale | 25 | – | 621 | 516 | 29 | 110,852 | 20,051 | – | 132,094 |
| – held-to-maturity | – | – | – | 40 | – | 506,614 | 2,525 | – | 509,179 |
| Other assets | 305,385 | 98,613 | 371,541 | 188,107 | 78,030 | 76,948 | 22,605 | (1,069,428) | 71,801 |
| **Segment assets** | 660,098 | 190,676 | 1,224,257 | 559,965 | 255,817 | 1,284,989 | 202,763 | (1,069,428) | 3,309,137 |
| **Liabilities** | | | | | | | | | |
| Due to other banks and financial institutions | (197,081) | (13,441) | (264,695) | (62,161) | (27,762) | (43,513) | (44,519) | – | (653,172) |
| Financial liabilities held for trading | – | – | – | – | – | (2,209) | (7,166) | – | (9,375) |
| Due to customers | (446,405) | (175,077) | (920,550) | (482,137) | (222,223) | (31,745) | (93,918) | – | (2,372,055) |
| Debts issued | – | – | – | – | – | (53,000) | – | – | (53,000) |
| Other liabilities | (13,825) | (5,666) | (28,425) | (13,637) | (6,122) | (1,007,273) | (51,590) | 1,069,428 | (57,110) |
| **Segment liabilities** | (657,311) | (194,184) | (1,213,670) | (557,935) | (256,107) | (1,137,740) | (197,193) | 1,069,428 | (3,144,712) |
| **Net on statement position** | 2,787 | (3,508) | 10,587 | 2,030 | (290) | 147,249 | 5,570 | – | 164,425 |
| **Acquisition cost of property and equipment and intangible assets** | (650) | (281) | (2,078) | (894) | (466) | (845) | (70) | – | (5,284) |
| **For the year ended 31 December 2009** | | | | | | | | | |
| Interest income[1] | 24,095 | 6,469 | 43,918 | 21,585 | 9,248 | 29,722 | 3,106 | (21,400) | 116,743 |
| Interest expense[2] | (13,534) | (3,658) | (18,931) | (9,215) | (3,742) | (21,312) | (1,083) | 21,400 | (50,075) |
| **Net interest income**[3] | 10,561 | 2,811 | 24,987 | 12,370 | 5,506 | 8,410 | 2,023 | – | 66,668 |
| Fee and commission income | 1,770 | 362 | 4,165 | 1,717 | 523 | 4,007 | 870 | – | 13,414 |
| Fee and commission expense | (490) | (48) | (875) | (272) | (65) | (147) | (118) | – | (2,015) |
| **Net fee and commission income** | 1,280 | 314 | 3,290 | 1,445 | 458 | 3,860 | 752 | – | 11,399 |
| Dividend income | – | – | 20 | – | – | 21 | 24 | – | 65 |
| Gains less losses arising from trading activities | 332 | 21 | 580 | 209 | 51 | (424) | 566 | – | 1,335 |
| Gains less losses arising from de-recognition investment securities | 20 | 56 | 153 | 164 | 6 | 351 | 41 | – | 791 |
| Other operating income | 59 | 36 | 715 | 277 | 50 | 40 | 143 | – | 1,320 |
| Reversal/(Impairment losses) on loans and advances | (1,814) | (504) | (4,291) | (3,535) | (1,082) | 38 | (67) | – | (11,255) |
| Other operating expenses | (4,616) | (2,107) | (10,857) | (5,566) | (2,630) | (4,661) | (1,585) | – | (32,022) |
| **Profit before tax** | 5,822 | 627 | 14,597 | 5,364 | 2,359 | 7,635 | 1,897 | – | 38,301 |
| Income tax | (1,450) | (126) | (3,595) | (1,329) | (570) | (652) | (325) | – | (8,047) |
| **Net profit for the year** | 4,372 | 501 | 11,002 | 4,035 | 1,789 | 6,983 | 1,572 | – | 30,254 |
| **Depreciation and amortization of property and equipment and intangible assets** | (403) | (277) | (1,014) | (571) | (314) | (713) | (213) | – | (3,505) |
| [1]Include | | | | | | | | | |
| External interest income | 18,372 | 4,696 | 38,179 | 17,484 | 7,816 | 27,231 | 2,965 | – | 116,743 |
| Inter-segment interest income | 5,723 | 1,773 | 5,739 | 4,101 | 1,432 | 2,491 | 141 | (21,400) | – |
| [2]Include | | | | | | | | | |
| External interest expense | (13,115) | (3,399) | (17,762) | (8,594) | (3,527) | (2,749) | (929) | – | (50,075) |
| Inter-segment interest expense | (419) | (259) | (1,169) | (621) | (215) | (18,563) | (154) | 21,400 | – |
| [3]Include | | | | | | | | | |
| External net interest income | 5,257 | 1,297 | 20,417 | 8,890 | 4,289 | 24,482 | 2,036 | – | 66,668 |
| Inter-segment net interest income | 5,304 | 1,514 | 4,570 | 3,480 | 1,217 | (16,072) | (13) | – | – |

(All amounts expressed in millions of RMB unless otherwise stated)

## 41 SEGMENT ANALYSIS *(Continued)*

### (a) Operating segment information *(Continued)*

| | Northern China | North-eastern China | Eastern China | Central & Southern China | Western China | Head Office | Overseas | Eliminations & Consolidated | Group Total |
|---|---|---|---|---|---|---|---|---|---|
| As at 31 December 2008 | | | | | | | | | |
| **Assets** | | | | | | | | | |
| Cash and balances with central banks | 9,682 | 4,087 | 30,922 | 10,306 | 4,580 | 302,138 | 465 | – | 362,180 |
| Due from other banks and financial institutions | 75,584 | 859 | 86,742 | 13,548 | 1,803 | 115,439 | 37,536 | – | 331,511 |
| Financial assets held for trading | – | – | – | 7 | – | 22,350 | 4,579 | – | 26,936 |
| Loans and advances to customers | 252,653 | 70,911 | 518,712 | 247,301 | 108,410 | 28,006 | 72,783 | – | 1,298,776 |
| Investment securities | | | | | | | | | |
| – loans and receivables | 7,032 | 3,285 | 13,015 | 10,755 | 2,851 | 53,965 | – | – | 90,903 |
| – available-for-sale | 7,696 | 144 | 2,789 | 2,500 | 15 | 110,828 | 18,038 | – | 142,010 |
| – held-to-maturity | 7,686 | 11,125 | 21,584 | 15,734 | 4,516 | 305,896 | 1,337 | – | 367,878 |
| Other assets | 207,172 | 77,185 | 309,984 | 161,045 | 76,080 | 47,585 | 15,815 | (836,811) | 58,055 |
| **Segment assets** | 567,505 | 167,596 | 983,748 | 461,196 | 198,255 | 986,207 | 150,553 | (836,811) | 2,678,249 |
| **Liabilities** | | | | | | | | | |
| Due to other banks and financial institutions | (198,738) | (12,430) | (232,468) | (59,740) | (18,921) | (16,339) | (30,817) | – | (569,453) |
| Financial liabilities held for trading | – | – | – | – | – | (4,562) | (5,451) | – | (10,013) |
| Due to customers | (353,576) | (152,496) | (712,409) | (384,419) | (174,069) | (1,916) | (86,930) | – | (1,865,815) |
| Debts issued | – | – | – | – | – | (40,000) | – | – | (40,000) |
| Other liabilities | (10,798) | (5,296) | (25,340) | (11,404) | (5,059) | (801,625) | (24,657) | 836,811 | (47,368) |
| **Segment liabilities** | (563,112) | (170,222) | (970,217) | (455,563) | (198,049) | (864,442) | (147,855) | 836,811 | (2,532,649) |
| **Net on statement position** | 4,393 | (2,626) | 13,531 | 5,633 | 206 | 121,765 | 2,698 | – | 145,600 |
| **Acquisition cost of property and equipment and intangible assets** | (1,012) | (373) | (2,331) | (1,176) | (413) | (1,836) | (101) | – | (7,242) |
| For the year ended 31 December 2008 | | | | | | | | | |
| Interest income[1] | 22,632 | 7,117 | 44,869 | 22,455 | 9,028 | 28,676 | 5,231 | (22,902) | 117,106 |
| Interest expense[2] | (13,193) | (3,688) | (19,641) | (9,633) | (3,744) | (20,882) | (3,365) | 22,902 | (51,244) |
| **Net interest income**[3] | 9,439 | 3,429 | 25,228 | 12,822 | 5,284 | 7,794 | 1,866 | – | 65,862 |
| Fee and commission income | 1,423 | 337 | 3,014 | 1,363 | 392 | 2,831 | 761 | – | 10,121 |
| Fee and commission expense | (227) | (49) | (499) | (182) | (51) | (96) | (180) | – | (1,284) |
| **Net fee and commission income** | 1,196 | 288 | 2,515 | 1,181 | 341 | 2,735 | 581 | – | 8,837 |
| Dividend income | – | – | 55 | – | 1 | 15 | 12 | – | 83 |
| Gains less losses arising from trading activities | 465 | 112 | 757 | 302 | 77 | (36) | (120) | – | 1,557 |
| Gains less losses arising from de-recognition investment securities | 28 | 11 | 250 | (52) | 3 | 272 | (286) | – | 226 |
| Other operating income | 14 | 30 | 448 | 62 | 46 | 9 | 102 | – | 711 |
| Reversal/(Impairment losses) on loans and advances | (1,976) | (603) | (4,731) | (1,993) | (1,121) | (23) | (243) | – | (10,690) |
| Other operating expenses | (4,026) | (2,019) | (9,967) | (4,807) | (2,270) | (5,630) | (1,914) | – | (30,633) |
| **Profit/(loss) before tax** | 5,140 | 1,248 | 14,555 | 7,515 | 2,361 | 5,136 | (2) | – | 35,953 |
| Income tax | (1,223) | (277) | (3,526) | (1,769) | (557) | (75) | 95 | – | (7,332) |
| **Net profit for the year** | 3,917 | 971 | 11,029 | 5,746 | 1,804 | 5,061 | 93 | – | 28,621 |
| **Depreciation and amortization of property and equipment and intangible assets** | (330) | (268) | (873) | (478) | (273) | (726) | (121) | – | (3,069) |
| [1]Include | | | | | | | | | |
| External interest income | 18,464 | 5,501 | 37,478 | 18,068 | 7,492 | 25,348 | 4,755 | – | 117,106 |
| Inter-segment interest income | 4,168 | 1,616 | 7,391 | 4,387 | 1,536 | 3,328 | 476 | (22,902) | – |
| [2]Include | | | | | | | | | |
| External interest expense | (12,758) | (3,419) | (17,994) | (8,670) | (3,486) | (2,082) | (2,835) | – | (51,244) |
| Inter-segment interest expense | (435) | (269) | (1,647) | (963) | (258) | (18,800) | (530) | 22,902 | – |
| [3]Include | | | | | | | | | |
| External net interest income | 5,706 | 2,082 | 19,484 | 9,398 | 4,006 | 23,266 | 1,920 | – | 65,862 |
| Inter-segment net interest income | 3,733 | 1,347 | 5,744 | 3,424 | 1,278 | (15,472) | (54) | – | – |

(All amounts expressed in millions of RMB unless otherwise stated)

## 41 SEGMENT ANALYSIS *(Continued)*

### Geographical information

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Revenue | Non-current assets | Revenue | Non-current assets |
| PRC | 132,732 | 33,579 | 128,963 | 31,964 |
| Other countries | 936 | 79 | 841 | 85 |
| **Total** | 133,668 | 33,658 | 129,804 | 32,049 |

### Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises retail banking, corporate banking, treasury and other classes of business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Retail banking mainly comprises retail loans, retail deposits, credit card and remittance. Treasury mainly comprises money market placements and takings, investment in securities, and securities sold subject to linked repurchase agreements ('repos'). The 'Others' business segment mainly comprises items which cannot be categorized in the above business segments. The Group's revenue from external customers by business lines is listed as follow.

### Revenue from external customers

| | For the year ended 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Corporate | 77,377 | 75,833 |
| Retail | 20,302 | 18,915 |
| Treasury | 33,173 | 33,932 |
| Other | 2,816 | 1,124 |
| **Total** | 133,668 | 129,804 |

There were no large transactions with a single external customer that the Bank mainly relying on.

## 42 Reclassification of comparative figures

Certain comparative figures have been reclassified to conform to the current period presentation.

## 43 Subsequent events

On January 2010, the Bank completed the purchase shares in China Life-CMG Life Assurance Company Ltd. from China Life Insurance Company Limited and after the purchase the company was renamed as BoComm Life Insurance Company Limited. The Bank held 51% of BoComm Life Insurance Company Limited's total shares and purchase price amounted to RMB196 million.

On 23 February 2010, the Board of Directors approved the plan of rights issue to all shareholders of no more than 1.5 shares for every 10 shares of A shares and H shares held. The plan is still subject to the approval by the shareholders at the General Meeting.

# Supplementary Unaudited Financial Information

(All amounts expressed in millions of RMB unless otherwise stated)

(All amounts expressed in millions of RMB unless otherwise stated)

## 1 LIQUIDITY RATIOS

***Group***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Liquidity Ratios: | 28.02% | 39.72% |

***Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Liquidity Ratios: | 27.83% | 39.62% |

## 2 CURRENCY CONCENTRATIONS

***Group***

| | US Dollars | HK Dollars | Others | Total |
|---|---|---|---|---|
| **As at 31 December 2009** | | | | |
| Spot assets | 166,295 | 75,253 | 29,500 | 271,048 |
| Spot liabilities | (138,891) | (79,626) | (30,557) | (249,074) |
| Forward purchases | 168,778 | 17,043 | 22,131 | 207,952 |
| Forward sales | (176,634) | (15,474) | (16,809) | (208,917) |
| Net long/(short) position | 19,548 | (2,804) | 4,265 | 21,009 |
| Net structural position | 5,465 | 4,053 | 1,312 | 10,830 |

***Group***

| | US Dollars | HK Dollars | Others | Total |
|---|---|---|---|---|
| **As at 31 December 2008** | | | | |
| Spot assets | 149,096 | 59,925 | 28,099 | 237,120 |
| Spot liabilities | (126,943) | (68,513) | (24,728) | (220,184) |
| Forward purchases | 81,451 | 9,036 | 9,347 | 99,834 |
| Forward sales | (78,776) | (2,256) | (13,153) | (94,185) |
| Net long/(short) position | 24,828 | (1,808) | (435) | 22,585 |
| Net structural position | 2,140 | 3,394 | 856 | 6,390 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 2 CURRENCY CONCENTRATIONS *(Continued)*

The net options position is calculated using the model user approach as set out in the banking return of the HKMA. The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries 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;
- Investments in overseas subsidiaries and related companies; and
- Loan capital.

## 3 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside 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 area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a 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.

| | Bank and other financial institutions | Public sector entities | Others | Total |
|---|---|---|---|---|
| **As at 31 December 2009** | | | | |
| Asia Pacific excluding Mainland China | 38,216 | 4,802 | 44,948 | 87,966 |
| — of which attributed to Hong Kong | 19,976 | 2,578 | 36,390 | 58,944 |
| North and South America | 12,609 | 275 | 11,424 | 24,308 |
| Africa | 596 | — | — | 596 |
| Europe | 25,542 | 1,216 | 916 | 27,674 |
| | 76,963 | 6,293 | 57,288 | 140,544 |

(All amounts expressed in millions of RMB unless otherwise stated)

## 3 CROSS-BORDER CLAIMS *(Continued)*

| | Bank and other financial institutions | Public sector entities | Others | Total |
|---|---|---|---|---|
| **As at 31 December 2008** | | | | |
| Asia Pacific excluding Mainland China | 32,199 | 2,276 | 42,926 | 77,401 |
| — of which attributed to Hong Kong | 1,926 | 1,995 | 36,106 | 40,027 |
| North and South America | 13,915 | 333 | 7,762 | 22,010 |
| Africa | 149 | — | — | 149 |
| Europe | 44,308 | 197 | 2,954 | 47,459 |
| | 90,571 | 2,806 | 53,642 | 147,019 |

## 4 OVERDUE AND RESCHEDULED ASSETS

### (a) Gross amount of overdue loans

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Gross advances to customers which have been overdue for: | | |
| — within 3 months | 4,753 | 8,381 |
| — between 3 and 6 months | 2,605 | 2,395 |
| — between 6 and 12 months | 3,910 | 3,588 |
| — over 12 months | 14,675 | 14,996 |
| | 25,943 | 29,360 |
| Percentage: | | |
| — within 3 months | 0.26% | 0.63% |
| — between 3 and 6 months | 0.14% | 0.18% |
| — between 6 and 12 months | 0.21% | 0.27% |
| — over 12 months | 0.80% | 1.13% |
| | 1.41% | 2.21% |

(All amounts expressed in millions of RMB unless otherwise stated)

## 4 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

### (a) Gross amount of overdue loans *(Continued)*

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Gross advances to banks and other financial institutions which have been overdue for: | | |
| — within 3 months | — | — |
| — between 3 and 6 months | — | — |
| — between 6 and 12 months | — | — |
| — over 12 months | 13 | 226 |
| | 13 | 226 |
| Percentage: | | |
| — within 3 months | — | — |
| — between 3 and 6 months | — | — |
| — between 6 and 12 months | — | — |
| — over 12 months | 0.01% | 0.07% |
| | 0.01% | 0.07% |

Included in the gross overdue advances to customers as at 31 December 2009, there are trade bills which have been overdue for:

| | 31 December 2009 |
|---|---|
| — within 3 months | 1 |
| — between 3 and 6 months | 26 |
| — between 6 and 12 months | 74 |
| — over 12 months | 166 |
| | 267 |

### (b) Overdue and rescheduled loans

***Group and Bank***

| | As at 31 December 2009 | 2008 |
|---|---|---|
| Total rescheduled loans and advances to customers | 3,396 | 5,315 |
| Including: rescheduled loans and advances to customers overdue above 3 months | 1,951 | 2,811 |
| Percentage of rescheduled loans and advances to customers overdue above 3 months in total loans | 0.11% | 0.21% |

(All amounts expressed in millions of RMB unless otherwise stated)

## 5 SEGMENTAL INFORMATION OF LOANS

### (a) Impaired loans by geographical area

***Group and Bank***

| | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | Impaired loan | Specific Provision | Impaired loan | Specific Provision |
| Domestic regions | | | | |
| — Northern China | 3,692 | (2,325) | 3,822 | (2,564) |
| — North-eastern China | 2,711 | (1,718) | 3,173 | (2,130) |
| — Eastern China | 8,888 | (5,274) | 10,133 | (6,203) |
| — Central & Southern China | 6,800 | (3,764) | 4,451 | (2,967) |
| — Western China | 2,383 | (1,562) | 3,537 | (2,179) |
| | 24,474 | (14,643) | 25,116 | (16,043) |
| Hong Kong, Macao and overseas countries | 535 | (355) | 404 | (340) |
| | 25,009 | (14,998) | 25,520 | (16,383) |

### (b) Overdue loans and advances to customers by geographical area

***Group and Bank***

| | 31 December 2009 | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | overdue loan | Specific Provision | Collective provision | overdue loan | Specific Provision | Collective provision |
| Domestic regions | | | | | | |
| — Northern China | 4,822 | (2,218) | (20) | 4,808 | (2,087) | (25) |
| — North-eastern China | 2,746 | (1,474) | (2) | 4,173 | (1,882) | (21) |
| — Eastern China | 8,914 | (4,566) | (10) | 10,112 | (5,087) | (41) |
| — Central & Southern China | 5,861 | (2,716) | (4) | 6,038 | (2,454) | (39) |
| — Western China | 2,775 | (1,376) | (8) | 3,515 | (1,639) | (15) |
| | 25,118 | (12,350) | (44) | 28,646 | (13,149) | (141) |
| Hong Kong, Macao and overseas countries | 825 | (191) | (11) | 714 | (281) | (1) |
| | 25,943 | (12,541) | (55) | 29,360 | (13,430) | (142) |
| Fair value of collateral | 16,057 | | | 17,810 | | |

(All amounts expressed in millions of RMB unless otherwise stated)

## 6 LOANS AND ADVANCES TO CUSTOMERS

### (a) The group economic sector risk concentration analysis for loans and advances to customers (gross):

| | 31 December 2009 | % | Amount covered by collaterals | 31 December 2008 | % | Amount covered by collaterals |
|---|---|---|---|---|---|---|
| *HK:* | | | | | | |
| Corporate loans | | | | | | |
| Manufacturing | | | | | | |
| — Petroleum and chemical | 2,261 | 3 | 53 | — | — | — |
| — Electronics | 574 | 1 | 32 | 357 | 1 | 148 |
| — Steel smelting and processing | — | — | — | — | — | — |
| — Machinery | 432 | 1 | — | — | — | — |
| — Textile | 160 | — | 70 | 247 | — | 85 |
| — Other manufacturing | 2,787 | 4 | 127 | 3,504 | 6 | 312 |
| Transportation | 3,830 | 6 | 689 | 2,139 | 4 | 520 |
| Electricity | 515 | 1 | — | 416 | 1 | — |
| Wholesale and retail | 10,842 | 17 | 1,146 | 7,997 | 14 | 1,098 |
| Services | 450 | 1 | 450 | 309 | 1 | 2 |
| Real estate | 9,536 | 15 | 7,832 | 6,799 | 12 | 5,114 |
| Utilities | 144 | — | — | — | — | — |
| Construction | 4,881 | 8 | 1,145 | 4,982 | 9 | 1,259 |
| Energy and mining | 146 | — | — | | | |
| Recreation and entertainment | — | — | — | — | — | — |
| Accommodation and catering | 300 | — | 44 | 309 | 1 | 2 |
| IT and telecommunication service | 245 | — | — | 479 | 1 | — |
| Financial institutions | 9,422 | 14 | 496 | 5,812 | 10 | 284 |
| Others | 4,626 | 7 | 319 | 9,786 | 16 | 680 |
| Corporate loans total | 51,151 | 78 | 12,403 | 43,136 | 76 | 9,504 |
| Mortgage loans | 9,517 | 15 | 9,511 | 8,831 | 15 | 8,816 |
| Medium-term and long-term working capital loans | — | — | — | — | — | — |
| Short-term working capital loans | 107 | — | 79 | 110 | — | 68 |
| Car loans | — | — | — | — | — | — |
| Credit card advances | 154 | — | — | 69 | — | — |
| Loans secured by deposits | — | — | — | — | — | — |
| Others | 4,656 | 7 | 4,569 | 4,935 | 9 | 4,856 |
| Individual loans total | 14,434 | 22 | 14,159 | 13,945 | 24 | 13,740 |
| Gross amount of loans and advances before allowance for impairment | 65,585 | 100 | 26,562 | 57,081 | 100 | 23,244 |
| *Outside HK:* | 1,773,729 | | | 1,271,509 | | |

(All amounts expressed in millions of RMB unless otherwise stated)

## 6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

### (a) The group economic sector risk concentration analysis for loans and advances to customers (gross): *(Continued)*

The economic sector concentration risk analysis for loans and advances to customers is based on the Group's internal classification system.

The collateral rate of the Group is 39% as the year ended 31 December 2009 (2008: 36%).

### (b) Provision on loans and advances by loan usage

***Group and Bank***

| | Individually assessed to be impaired | Specific provision |
|---|---|---|
| **31 December 2009** | | |
| Corporate | 21,869 | (13,027) |
| Individual | 3,140 | (1,971) |
| | 25,009 | (14,998) |
| **Fair value of collateral** | 7,372 | N/A |

***Group and Bank***

| | Individually assessed to be impaired | Specific provision |
|---|---|---|
| 31 December 2008 | | |
| Corporate | 22,602 | (14,823) |
| Individual | 2,918 | (1,560) |
| | 25,520 | (16,383) |
| **Fair value of collateral** | 6,791 | N/A |

Collateral held against such loans mainly include cash deposits and mortgages over properties.

(All amounts expressed in millions of RMB unless otherwise stated)

## 6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

### (b) Provision on loans and advances by loan usage *(Continued)*

The amount of new provisions charged to statement of comprehensive income, and the amount of impaired loans and advances written off during the year are disclosed in the below tables:

***Group***

| | New provisions | Loans written off as uncollectible | Recoveries of advances written off in previous years |
|---|---|---|---|
| **2009** | | | |
| Corporate | 9,702 | 2,802 | (21) |
| Individual | 1,578 | 2 | (1) |
| | 11,280 | 2,804 | (22) |

***Bank***

| | New provisions | Loans written off as uncollectible | Recoveries of advances written off in previous years |
|---|---|---|---|
| **2009** | | | |
| Corporate | 9,701 | 2,802 | (21) |
| Individual | 1,578 | 2 | (1) |
| | 11,279 | 2,804 | (22) |

***Group and Bank***

| | New provisions | Loans written off as uncollectible | Recoveries of advances written off in previous years |
|---|---|---|---|
| 2008 | | | |
| Corporate | 9,678 | 1,887 | (29) |
| Individual | 1,067 | 40 | (1) |
| | 10,745 | 1,927 | (30) |

# Reconciliation of Financial Information between CAS and IFRS

(All amounts expressed in millions of RMB unless otherwise stated.)

Effective from 2009, the Group changed its accounting policy in the financial statements prepared under IFRS from the revaluation model to the cost model, and made retrospective adjustments to prior period financial statements. The reconciliation of net assets as at 31 December 2009 and net profit for the year ended 31 December 2009 from Chinese Accounting Standards ("CAS") to IFRS is listed as follows:

(in millions of RMB)

| | Net Assets (including minority interest) | | Net Profit (including minority interest) | |
|---|---|---|---|---|
| | 31 December 2009 | 31 December 2008 (Restated) | 2009 | 2008 (Restated) |
| CAS figures | 164,425 | 145,642 | 30,211 | 28,520 |
| Adjustments for accounting standard differences: | | | | |
| 1. Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation | — | (104) | 104 | 225 |
| 2. Others | — | 50 | (49) | (90) |
| 3. Deferred taxes | — | 12 | (12) | (34) |
| IFRS figures | 164,425 | 145,600 | 30,254 | 28,621 |

Explanation of the adjustments for accounting standard differences:

## 1. Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation

On 27 June 2004, the Group disposed of non-performing loans (the "**Transferred Loans**") to China Cinda Asset Management Corporation in exchange for a bill issued by the People's Bank of China (the "**Bills**"). The amount of carrying value of the Transferred Loans in excess of the fair value of the Bills, net of tax, was offset against capital surplus in its IFRS financial statements. However, under CAS the Bills were carried at face value. The discount is amortised to interest income for the remaining maturity of the Bills.

## 2. Others

All other differences are adjustments with relatively insignificant amounts.

## 3. Deferred taxes

In both CAS and IFRS financial statements, the Group recognised deferred income tax using the liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Accordingly, both CAS and IFRS differences give rise to deferred taxation.

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- Tianjing Branch
35 Nanjing Lu,
He Xi District, Tianjin
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P.C.: 300200
FAX: (022) 23302004

- Shijiazhuang Branch
22 Zi Qiang Lu,
Shijiazhuang
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P.C.: 050000
FAX: (0311) 87016376

- Tangshan Branch
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- Qinhuangdao Branch
174 Wen Hua Lu,
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- Handan Branch
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Dong Lu
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- Taiyuan Branch
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35 Jie Fang Lu,
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4070440
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- Jincheng Branch
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- Baotou Branch
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- Shenyang Branch
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FAX: (024) 22825238

- Anshan Branch
38 Er Yi Jiu Lu,
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- Fushun Branch
2-1 Xi Yi Lu,
Xin Fu District, Fushun
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SWIFT:
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FAX: (0413) 2648493

- Dandong Branch
68 Jin Shan Da Jie,
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FAX: (0415) 2131250

- Jinzhou Branch
42 Yun Fei Jie,
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SWIFT:
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- Yinkou Branch
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- Changchun Branch
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■ **Yanbian Branch**
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■ **Harbin Branch**
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■ **Qiqihar Branch**
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■ **Daqing Branch**
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■ **Nanjing Branch**
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■ **Taizhou Branch**
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87216232
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SWIFT:
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  SWIFT: COMMCNSHNBO
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- **Hefei Branch**
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- **Wuhu Branch**
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  FAX: (0553) 3839531

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  P.C.: 233000
  FAX: (0552) 2040376

- **Huainan Branch**
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  P.C.: 232001
  FAX: (0554) 6651788

- **Anqing Branch**
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  FAX: (0556) 5509641

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  P.C.: 361004

- **Nanchang Branch**
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  P.C.: 330003
  FAX: (0791) 6214486

- **Jingdezhen Branch**
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  SWIFT: COMMCNSHJDZ
  P.C.: 333000
  FAX: (0798) 8570660

- **Xinyu Branch**
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  P.C.: 338000
  FAX: (0790) 6441943

- **Jiujiang Branch**
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  SWIFT: COMMCNSHJJG
  P.C.: 332000
  FAX: (0792) 8118426

- **Jinan Branch**
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  SWIFT: COMMCNSHJNN
  P.C.: 250012
  FAX: (0531) 86106390

- **Zibo Branch**
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  SWIFT: COMMCNSHZBO
  P.C.: 255040
  FAX: (0533) 2687150

- **Weifang Branch**
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  SWIFT: COMMCNSHWFG
  P.C.: 261041
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### Weihai Branch
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FAX: (0631) 5230127

### Jining Branch
36 Hong Xing Zhong Lu, Jining
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### Taian Branch
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### Qingdao Branch
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### Zhengzhou Branch
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FAX: (0371) 65751011

### Luoyang Branch
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### Nanyang Branch
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FAX: (0379) 63322900

### Wuhan Branch
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SWIFT: COMMCNSHWHN
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FAX: (027) 8547112

### Huangshi Branch
380 Yi Yang Lu, Huangshi
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22 Sheng Li Si Lu, Yichang
TEL: (0717) 6484982
SWIFT: COMMCNSHYCG
P.C.: 443000
FAX: (0717) 6484831

### Xiangfan Branch
8 Yan Jiang Da Dao, Xiangfan, Hubei
TEL: (0710) 3421858
SWIFT: COMMCNSHWHN
P.C.: 441000
FAX: (0710) 3421853

### Changsha Branch
37 Shai Shan Zhong Lu, Changsha
TEL: (0731) 5555522
SWIFT: COMMCNSHCSA
P.C.: 410007
FAX: (0731) 5603737

### Yueyang Branch
Yin Du Mansion, Nan Hu Da Dao, Yueyang
TEL: (0730) 8296189
SWIFT: COMMCNSHYYG
P.C.: 414000
FAX: (0730) 8296191

### Guangzhou Branch
123 Jie Fang Nan Lu, Guangzhou
TEL: (020) 83271333
SWIFT: COMMCNSHGUA
P.C.: 510120
FAX: (020) 83270386

### Zhuhai Branch
No. 1227 Bocom Building, Jiu Zhou Road, Zhuhai
TEL: (0756) 3338822
SWIFT: COMMCNSHZHI
P.C.: 519015
FAX: (0756) 3330881

### Shantou Branch
83 Jin Sha Lu, Shantou
TEL: (0754) 8246988
SWIFT: COMMCNSHSTU
P.C.: 515041
FAX: (0754) 8611962

### Dongguan Branch
190 Qi Feng Lu, Dongguan
TEL: (0769) 22336998
SWIFT: COMMCNSHDGN
P.C.: 523008
FAX: (0769) 22336908

### Zhongshan Branch
30 Yue Lai Nan Lu, Shi Qi, Zhongshan
TEL: (0760) 8812000
SWIFT: COMMCNSHZSN
P.C.: 528400
FAX: (0760) 8808917

### Foshan Branch
1-1 Ti Yu Lu, Foshan
TEL: (0757) 83215360
SWIFT: COMMCNSHFSA
P.C.: 528000
FAX: (0757) 83333125

# List of Branches (Continued)

### Jieyang Sub-branch
6 Bai Huan Cheng Lu,
Rong Cheng
District, Jieyang
TEL: (0663) 8611739
P.C.: 522000
FAX: (0663) 8634640

### Huizhou Branch
8 Yunshan Xi Lu,
Huizhou
TEL: (0752) 2856111
SWIFT:
COMMCNSHHUI
P.C.: 516003
FAX: (0752) 2856113

### Jiangmen Branch
18 Dong Hua Er Lu,
Jiangmen
TEL: (0750) 3935168
SWIFT:
COMMCNSHJMN
P.C.: 529000
FAX: (0750) 3935199

### Shenzhen Branch
2066 Shen Nan Zhong
Lu, Shenzhen
TEL: (0755) 83680000
SWIFT:
COMMCNSHSZN
P.C.: 518031
FAX: (0755) 83680033

### Nanning Branch
228 Ren Min Dong Lu,
Nanning
TEL: (0771) 2835260
SWIFT:
COMMCNSHNNG
P.C.: 530012
FAX: (0771) 2835475

### Liuzhou Branch
32 Yue Jin Lu,
Liuzhou
TEL: (0772) 2860711
SWIFT:
COMMCNSHLIU
P.C.: 545001
FAX: (0772) 2866680

### Guilin Branch
8 Nan Huan Lu,
Guilin
TEL: (0773) 2834167
SWIFT:
COMMCNSHGLN
P.C.: 541002
FAX: (0773) 2826506

### Wuzhou Branch
47 Da Zhong Lu,
Wuzhou
TEL: (0774) 2832582
SWIFT:
COMMCNSHWUZ
P.C.: 543000
FAX: (0774) 2827711

### Beihai Branch
BOCOM Tower,
25 Yun Nan Lu,
Beihai
TEL: (0779) 3088836
SWIFT:
COMMCNSHBHI
P.C.: 536000
FAX: (0779) 3038440

### Hainan Branch
45, Guo Mao Lu,
Finance and Trade
Zone, Haikou
TEL: (0898) 68532666
SWIFT:
COMMCNSHHNN
P.C.: 570125
FAX: (0898) 68532333

### Chongqing Branch
158 Zhong Shan San
Lu, Yu Zhong District,
Chongqing
TEL: (023) 63639888
SWIFT:
COMMCNSHCQG
P.C.: 400015
FAX: (023) 63851916

### Chengdu Branch
211 Xi Yu Long Jie,
Chengdu
TEL: (028) 86525666
SWIFT:
COMMCNSHCDU
P.C.: 610015
FAX: (028) 86525555

### Zigong Branch
108 Wu Xing Jie,
Zi Liu Jing District,
Zigong
TEL: (0813) 2105667
SWIFT:
COMMCNSHZGG
P.C.: 643000
FAX: (0813) 2105667

### Panzhihua Branch
129 Bing Cao Gang
Da Jie, Panzhihua
TEL: (0812) 3334197
SWIFT:
COMMCNSHPZH
P.C.: 617000
FAX: (0812) 3334197

### Guiyang Branch
4 Sheng Fu Lu,
Guiyang
TEL: (0851) 5861460
SWIFT:
COMMCNSHGYG
P.C.: 550001
FAX: (0851) 5861460

### Zunyi Branch
108 Zhong Hua Lu,
Hong Hua Gang
TEL: (0852) 8824421
SWIFT:
COMMCNSHZYI
P.C.: 563000
FAX: (0852) 8825356

### Kunming Branch
67 Hu Guo Lu,
Kunming
TEL: (0871) 3107673
SWIFT:
COMMCNSHKMG
P.C.: 650021
FAX: (0871) 3107584

### Qujing Branch
Qilinnan Lu and
Wenchang Street
Crossing, Qujing
TEL: (0874) 8988588
8988511
P.C.: 655000
FAX: (0874) 8988555

### Yuxi Branch
61 Yu Xing Lu,
Hong Ta District, Yuxi
TEL: (0877) 2056555
P.C.: 653100
FAX: (0877) 2056555

### Chuxiong Branch
102 Bei Pu Lu,
Chuxiong
TEL: (0878) 3124223
P.C.: 675000
FAX: (0878) 3121712

- **Xian Branch**
  88 Xi Xin Jie, Xian
  TEL: (029) 87653017
  SWIFT:
  COMMCNSHIAN
  P.C.: 710004
  FAX: (029) 87653019

- **Xianyang Branch**
  B2 Middle Weiyang Lu,
  Xianyang
  TEL: (029) 33177301
  P.C.: 712000
  FAX: (029) 33177301

- **Lanzhou Branch**
  129 Qing Yang Lu,
  Lanzhou
  TEL: (0931) 8105273
  SWIFT:
  COMMCNSHLAN
  P.C.: 730030
  FAX: (0931) 8105124

- **Yingchuan Branch**
  296 North Minzu Road,
  Yingchuan
  TEL: (0951) 6916803
  SWIFT:
  COMMCNSHYCN
  P.C.: 750001
  FAX: (0951) 5014268

- **Urumqi Branch**
  16 Dong Feng Lu,
  Urumqi
  TEL: (0991) 2833597
  SWIFT:
  COMMCNSHWLM
  P.C.: 830002
  FAX: (0991) 2840184
  FAX: (0592) 2295013

Indicates that these branches and sub-branches are authorized to conduct international banking business.


## Hong Kong Branch

Address :
20 Pedder Street
Central, Hong Kong
Tel: (00852)-28419611
Fax: (00852)-28106993

## New York Branch

Address:
One Exchange Plaza,
55 Broadway,
31st & 32nd Floor
New York, USA
Postal Code: 10006-3008
Tel: (001)-(212)-376-8030
Fax: (001)-(212)-376-8089

## Tokyo Branch

Address:
Toranomon, No.37
Mori BLDG. 9F 3-5-1,
Toranomon Minalo-ku
Tokyo, Japan
Postal Code: 105-0001
Tel: (0081)-(3)-3432-1818
Fax: (0081)-(3)-3432-1824

## Singapore Branch

Address:
50 Raffles Place
#26-04 Singapore
Land Tower
Postal Code: 048623
Tel: (0065)-65320335
Fax: (0065)-65320339

## Seoul Branch

Address:
6th Floor Samsung Fire &
Marine Bldg.
#87, Euljiro 1-Ga,
Jung-Gu, Seoul, Korea
Postal Code: 100-782
Tel: (0082)-(2)-2022-6888
Fax: (0082)-(2)-2022-6899


## Frankfurt Branch

Address:
Neue Mainzer
Strasse 75,
FFM Germany
Postal Code: 60311
Tel: (0049)-(69)-66058921
Fax: (0049)-(69)-66058938

## Macau Branch

Address:
16/F AIA Tower,
NO.251A-301, Avenida
Comercial de Macau
Tel: (00853)-28286611
Fax: (00853)-28286686

## London Representative Office

Address:
3rd Floor,
145 Leadenhall Street,
London EC3V 4QT, UK
Tel: (0044)-(0)2079296050
Fax: (0044)-(0)2079296055

## Sydney Office

Address:
Suite 2701,
363 George Street,
Sydney NSW 2000,
Australia
Tel: (0061)-(02) 80659812/
80659306
Fax: (0061)-(02) 80842078

# Definition

The following terms will have the following meanings in this Annual Report unless otherwise stated:

| | |
|---|---|
| **"Articles of Association"** | refers to the Articles of Association of the Bank of Communications Co., Ltd. approved by the CBRC |
| **"Bank"** | refers to Bank of Communications Co., Ltd. |
| **"Basis point"** | refers to one in ten thousand |
| **"Bocom Insurance"** | refers to China Bocom Insurance Co., Ltd. |
| **"Bocom International"** | refers to Bocom International Holdings Company Limited |
| **"Bocom International Trust"** | refers to Bank of Communications International Trust Co., Ltd. |
| **"Bocom Leasing"** | refers to Bank of Communications Financial Leasing Co., Ltd. |
| **"Bocom Schroder"** | refers to Bank of Communications Schroder Fund Management Co., Ltd. |
| **"Bocom Xingming Rural Bank"** | refers to Bocom Xingming Rural Bank |
| **"CBRC"** | refers to the China Banking Regulatory Commission |
| **"Central and Southern China"** | includes Henan Province, Hunan Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province |
| **"Commercial Bank Law"** | refers to the Law of the People's Republic of China on Commercial Banks |
| **"Company Law"** | refers to the Company Law of the People's Republic of China |
| **"CRCB"** | refers to Jiangsu Changshu Rural Commercial Bank Co., Ltd. |
| **"CSRC"** | refers to the China Securities Regulatory Commission |
| **"Eastern China"** | includes Shanghai Municipality (excluding Head Office), Jiangsu Province and Shandong Province |
| **"Group"** | refers to Bank of Communications Co., Ltd. and its subsidiaries |
| **"Head Office"** | refers to the Bank's Head Office in Shanghai |
| **"Hong Kong Listing Rules"** | refers to the GEM Listing Rules of the Stock Exchange of Hong Kong Limited |
| **"Hong Kong Stock Exchange"** | refers to The Stock Exchange of Hong Kong Limited |
| **"HSBC"** | refers to The Hongkong and Shanghai Banking Corporation Limited |
| **"Huijin Investment Company Limited"** | refers to the Central Huijin Investment Company Limited |
| **"Impaired loan"** | refers to loans which are impaired due to objective evidence that the counterparty will be unable to pay amounts in full when due |
| **"Interest bearing assets"** | refers to customer loans, investment securities, receivables from banks and other financial institutions |
| **"Interest bearing liabilities"** | refers to customer deposits, payables to banks and other financial institutions and other borrowings |
| **"Ministry of Finance"** | refers to the Ministry of the Finance People's Republic of China |
| **"Northern China"** | includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and the Inner Mongolia Autonomous Region |
| **"North Eastern China"** | includes Liaoning Province, Jilin Province and Heilongjiang Province |
| **"Overseas"** | includes overseas subsidiaries and branches in Hong Kong, New York, Singapore, Tokyo, Seoul, Frankfurt and Macau |
| **"PBOC"** | refers to The People's Bank Of China |
| **"Shanghai Stock Exchange"** | refers to the Shanghai Stock Exchange |
| **"Social Security Fund Council"** | refers to the National Council for Social Security Fund |
| **"State Administration of Taxation"** | refers to the State Administration of Taxation of the People's Republic of China |
| **"Western China"** | includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region |
| **"Yuan"** | refers to the Renminbi |

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EXPO 2010 SHANGHAI CHINA

Global Partner of Expo 2010 Shanghai China

**Bank of Communications Co., Ltd.**

No. 188, Yin Cheng Zhong Lu, Shanghai P.R. China

www.bankcomm.com