华夏银行
HUAXIA BANK

ANNUAL REPORT 2009

Chairman of the board: Wu Jian

President: Fan Dazhi

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SECTION I
IMPORTANT NOTICE

IMPORTANT NOTICE

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management members of Hua Xia Bank Co., Limited (the "Company") undertake that the information in this report contains no false record, misleading statement or material omission, and assume individual and joint and several liabilities to the authenticity, accuracy and completeness of the information in this report.

The Annual Report 2009 of the Company and its Summary have been considered and approved at the 18th meeting of the fifth Board of Directors of the Company held on 24 March 2010. 10 directors of 15 directors that should attend the meeting were present at the meeting. Vice Chairman Li Ruge entrusted Director Ding Shilong to vote on his behalf, Director Colin Grassie entrusted Chairman Wu Jian to vote on his behalf, Director Sun Weiwei and Director Till Staffeldt entrusted Vice Chairman Fang Jianyi to vote on their behalf and Independent Director Qi Yudong entrusted Independent Luo Xiaoyuan to exercise his voting power on his behalf. 4 supervisors attended the meeting as observers. No directors, supervisors or senior management members could not guarantee on or have any objection against the authenticity, accuracy or completeness of the Annual Report 2009.

The 2009 financial statements of the Company have been audited by Jingdu Tinwha Certified Public Accountants Co., Ltd. and Ernst & Young in accordance with Chinese and International Standards on Audit respectively, with standard unqualified auditors' reports being issued.

Mr. Wujian, Chairman of the Board of Directors, President Fandazhi, Mr. Song Jiqing, Principal of Financial Affairs of the Company, and Mr. Guanwenjie, Principal of Accounting Departments of the Company, hereby warrant and guarantee that the financial statements contained in the Annual Report are authentic and complete.

SECTION II
CORPORATE INFORMATION

CORPORATE INFORMATION

I. Legal name in Chinese: 华夏银行股份有限公司（“华夏银行”）
   Legal name in English: Hua Xia Bank Co., Limited (“Hua Xia Bank” for short, hereinafter referred to as the “Company”)

II. Legal representative: Wu Jian

III. Secretary of the Board of Directors: Zhao Junxue (Alias: Zhao Jingxue)
   Securities affairs representative: Xu Liying
   Registered address: 22 Jianguomen Nei Avenue, Dongcheng District, Beijing
   Office address: Hua Xia Bank Mansion, 22 Jianguomen Inner St, Dongcheng District, Beijing
   Post Code: 100005
   Tel: 010-85238570, 85239938
   Fax: 010-85239605
   E-mail: zhdb@hxb.com.cn

IV. Registered address: 22 Jianguomen Nei Avenue, Dongcheng District, Beijing
   Office address: Hua Xia Bank Mansion, 22 Jianguomen Inner St, Dongcheng District, Beijing
   Post Code: 100005
   Internet website: http://www.hxb.com.cn; http://www.95577.com.cn
   E-mail: zhdb@hxb.com.cn

V. Newspaper designated for disclosure of information: China Securities Journal, Shanghai Securities News and Securities Times
   Website designated by China Securities Regulatory Commission for publication of the annual report: http://www.sse.com.cn
   Location where copies of this annual report is kept: Office of the Board of Directors of the Company

VI. Place where shares are listed: Shanghai Stock Exchange
   Stock name: 华夏银行
   Stock code: 600015

VII. Other relevant information
   Date of initial registration: 18 March 1998
   Place of initial registration: State Administration for Industry and Commerce, PRC
   Date of change of registration: 10 April 2009
   Place of change of registration: State Administration for Industry and Commerce, PRC
   Corporate business license number: 100000000029676
   Tax registration certificate number: Jing Zheng Shui Zi 11010210112001X
   Organizational code: 10112001-X
   Name of depositary of shares of the Company: Shanghai Branch of China Securities Depositary and Clearing Co., Ltd.
   Name of domestic accounting firm the Company engaged: Beijing Jingdu Tinwha Certified Public Accountants Co., Ltd.
   Address: Level 5, Scitech Plaza, 22 Jianguomen Outer St, Chaoyang District, Beijing
   Name of international accounting firm the Company engaged: Ernst & Young
   Address: 18/F, Two International Finance Center, 8 Finance Street, Central, Hong Kong

SECTION III
HIGHLIGHTS OF ACCOUNTING AND BUSINESS DATA

I. KEY PROFIT INDICATOR

(Unit: RMB1,000)

Item	PRC GAAP	IFRS
Total profit	4,827,586	4,827,586
Net profit attributable to equity holders of the listed companies	3,760,227	3,760,227
Net profit attributable to equity holders of the listed companies after deduction of extraordinary profit and loss	3,698,087	3,760,227
Operating profit	4,811,265	4,827,586
Investment income	101,297	101,297
Net income from non-operating activities	16,321	–
Net cash flow from operating activities	-40,071,358	-39,690,335
Net increase in cash and cash equivalents	-33,290,992	-33,290,992

Note: The extraordinary profit and loss are identified and calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.1-Extraordinary Profit and Loss (2008), and the deducted extraordinary profit and loss and concerning amount are as follows:

(Unit: RMB1,000)

Extraordinary profit and loss item	Amount
(Profit)/loss on disposal of non-current assets	-3,698
(Profit)/loss from contingencies irrelevant to the normal operation of the Company	-1,377
(Profit)/loss on changes in fair value of held-for-trading financial assets and held-for-trading financial liabilities excluding effective hedging transaction related to the Company's normal operation	-43,869
Investment gains from the disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets	111,377
Reverse of allowance for impairment losses on receivables undergoing impairment test independently	–
Other operating income and expenses except the above items	21,396
Total extraordinary profit and loss	83,829
Less: Income tax influence of extraordinary profit and loss	21,689
Extraordinary profit and loss, net	62,140

II. PREVIOUS THREE-YEAR ACCOUNTING DATA AND FINANCIAL INDICATORS AS AT THE END OF REPORTING PERIOD

(Unit: RMB1,000)

Item	2009		2008 (PRC GAAP)		2007 (PRC GAAP)	
	PRC GAAP	IFRS	After adjustment	Before adjustment	After adjustment	Before adjustment
Operating income	17,129,635	17,139,866	17,611,366	17,611,366	14,260,282	14,260,282
Total profit	4,827,586	4,827,586	4,006,543	4,006,543	3,820,794	3,820,794
Net profit attributable to equity holders of the listed companies	3,760,227	3,760,227	3,070,838	3,070,838	2,101,189	2,101,189
Net profit attributable to equity holders of the listed companies after deduction of extraordinary profit and loss	3,698,087	3,760,227	3,060,301	3,060,301	2,000,401	2,000,401
Total assets	845,456,432	845,594,709	731,637,186	731,637,186	592,338,274	592,338,274
Shareholders' equity	30,234,185	30,381,023	27,421,356	27,421,356	13,055,627	13,055,627
Cash flow from operating activities, net	-40,071,358	-39,690,335	52,701,838	49,866,630	-23,659,993	-25,728,570
Basic earnings per share (in RMB)	0.75	0.75	0.70	0.70	0.50	0.50
Diluted earnings per share (in RMB)	0.75	0.75	0.70	0.70	0.50	0.50
Earnings per share after deduction of extraordinary profit and loss (in RMB)	0.74	0.75	0.70	0.70	0.48	0.48
Net assets per share attributable to equity holders of the listed companies (in RMB)	6.06	6.09	5.49	5.49	3.11	3.11
Net cash flow per share from operating activities (in RMB)	-8.03	-7.95	10.56	9.99	-5.63	-6.13
Fully diluted return on equity (%)	12.44	12.38	11.20	11.20	16.09	16.09
Weighted average return on equity (%)	13.04	12.97	18.23	18.23	17.12	17.12
Fully diluted return on equity after deduction of extraordinary profit and loss (%)	12.23	12.38	11.16	11.16	15.32	15.32
Weighted average return on equity after deduction of extraordinary profit and loss (%)	12.83	12.97	18.17	18.17	16.30	16.30

Note: 1. Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.1-Extraordinary Profit and Loss (2008), Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.2: Content and Format of Annual Report (Revision 2007) and the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9-Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010).

2. The Company incorporated interest income obtained during the holding period of bonds into interest income item and accordingly adjusted cash flow from operating activities and previous data with the same approach.

III. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

(Unit: RMB1,000)

Item	Balance at the beginning of the year	Balance at the end of the year	Changes in current period	Effects on profit for the year
Precious metal	9,500	533	-8,967	1,467
Held-for-trading financial assets	4,817,684	765,724	-4,051,960	-76,957
Available-for-sale financial assets	17,946,797	11,640,738	-6,306,059	
Derivative financial instruments	-15,242	16,379	31,621	31,621
Total	22,758,739	12,423,374	-10,335,365	-43,869

IV. MAJOR FINANCIAL DATA AUDITED UNDER PRC GAAP AND IFRS AND RECONCILIATION DIFFERENCE

(Unit: RMB1,000)

	Net profit in 2009	Net assets at the end of 2009	Net profit in 2008	Net assets at the end of 2008
Calculated based on PRC GAAP	3,760,227	30,234,185	3,070,838	27,421,356
Adjusted based on IFRS				
Foreign currency translation reserve				
Unrealized income of available-for-sale investment		146,838		184,004
Sub-total		146,838		184,004
Prepared under IFRS	3,760,227	30,381,023	3,070,838	27,605,360

Note: Unrealized income difference of available-for-sale investment is the balance of unrealized income of available-for-sale investment that is unamortized under IFRS. As the Company sold held-to-maturity bonds before maturity, all bond investments are incorporated into bond investment category under IFRS. Two full fiscal years have passed by since the Interim Measures on the Identification and Measurement of Financial Instruments issued by the Ministry of Finance ("MOF") was implemented in 2006, therefore all bond investments are reincorporated into held-to-maturity investment category and the original profit or loss accrued into owner's equity is amortized based on the actual interest rate within the residual maturity of bond investment and accrued into current profit and loss.

V. ALLOWANCE FOR LOSSES ON LOANS UNDER PRC GAAP AND IFRS

(Unit: RMB1,000)

	PRC GAAP	IFRS
Balance at the beginning of the period	9,809,864	9,809,864
Charge during the reporting period	3,329,899	3,329,899
Interest reverse of impaired loans	214,614	214,614
Recovery during the reporting period	32,779	32,779
Write-off during the reporting period	1,986,958	1,986,958
Transfer-out during the reporting period	197,633	197,633
Balance at the end of the reporting period	10,773,337	10,773,337

VI. APPENDIX TO THE INCOME STATEMENT

According to the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9-Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010), return on net assets and earnings per share under PRC GAAP and IFRS in 2009 are as follows:

i. PRC GAAP

Profit during the reporting period	Weighted average return on net assets (%)	Earnings per share (RMB per share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	13.04	0.75	0.75
Net profit attributable to ordinary shareholders of the Company after deduction of extraordinary profit and loss	12.83	0.74	0.74

ii. IFRS

Profit during the reporting period	Weighted average return on net assets (%)	Earnings per share (RMB per share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	12.97	0.75	0.75
Net profit attributable to ordinary shareholders of the Company after deduction of extraordinary profit and loss	12.97	0.75	0.75

VII. CHANGES IN OWNER'S EQUITY DURING THE REPORTING PERIOD

i. PRC GAAP

(Unit: RMB1,000)

Item	Share capital	Capital reserves	General risk reserves	Surplus reserves	Retained profits	Total owner's equity
At the beginning of the period	4,990,528	14,655,270	5,406,956	1,407,326	961,276	27,421,356
Increase		-24,184	1,581,577	376,023	3,760,227	5,693,643
Decrease		274,446			2,606,368	2,880,814
At the end of the period	4,990,528	14,356,640	6,988,533	1,783,349	2,115,135	30,234,185

Reasons for changes in owner's equity:

1. Changes in capital reserve are mainly changes in fair value of available-for-sale financial assets. Increase in the reporting period refers to the increase of owner's equity (after tax) due to the changes in fair value of available-for-sale financial assets and decrease refers to the amount transferring to current profit and loss (after tax).
2. Increase of "General risk reserves" is due to the provision of general risk reserve from the net profits in the reporting period.
3. Increase of "Surplus reserves" is due to the provision of statutory surplus reserves from the net profits in the reporting period.
4. Increase of "Retained profits" is due to the increase of net profits during the reporting period and decrease is due to the distribution of dividends for 2008, provision of statutory surplus reserves for 2009 and general risk reserve.

ii. IFRS

(Unit: RMB1,000)

Item	Share capital	Capital reserves	General risk reserves	Surplus reserves	Retained profits	Unrealized profit and loss of investment for sale (after tax)	Total owner's equity
At the beginning of the period	4,990,528	14,349,123	5,406,956	1,407,326	961,276	490,151	27,605,360
Increase			1,581,577	376,023	3,760,227	-321,600	5,396,227
Decrease					2,606,368	14,196	2,620,564
At the end of the period	4,990,528	14,349,123	6,988,533	1,783,349	2,115,135	154,355	30,381,023

Reasons for the changes in owner's equity are the same of those under PRC GAAP.

SECTION VI
DETAILS OF CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

(Unit: Share)

	Before the change (31 December 2008)		Increase/Decrease (+,-)					After the change (31 December 2009)	
	Number	Percentage (%)	New issuance	Dividend shares	Dividend shares from contributed capital reserve	Others	Sub-total	Number	Percentage (%)
I. Shares subject to restrictions on sales									
1. State-owned shares									
2. Shares held by state-owned legal person	1,711,094,055	34.29	0	0	0	-1,187,939,200	-1,187,939,200	523,154,855	10.48
3. Shares held by other domestic investors									
Of which: shares held by domestic non-state-owned legal person	275,720,800	5.52	0	0	0	-275,720,800	-275,720,800	0	0
Shares held by domestic natural person									
4. Shares held by foreign investors									
Of which: Shares held by foreign legal person	803,213,461	16.09	0	0	0	-119,840,000	-119,840,000	683,373,461	13.69
Shares held by foreign natural person									
Total of shares subject to restrictions on sales	2,790,028,316	55.91	0	0	0	-1,583,500,000	-1,583,500,000	1,206,528,316	24.18
II. Shares not subject to restrictions on sales									
1. RMB-denominated ordinary shares	2,200,500,000	44.09	0	0	0	1,583,500,000	1,583,500,000	3,784,000,000	75.82
2. Foreign shares listed domestically									
3. Foreign shares listed overseas									
4. Others									
Total of shares not subject to restrictions on sales	2,200,500,000	44.09	0	0	0	1,583,500,000	1,583,500,000	3,784,000,000	75.82
III. Total shares	4,990,528,316	100.00	0	0	0	0	0	4,990,528,316	100.00

Note: On 8 June 2009, RMB1,583.5 million shares of the Company subject to restrictions on sales were listed. Please refer to the Announcement of Hua Xia Bank Co., Limited on the Public Offer of Shares Subject to Restrictions on Sales published in China Securities Journal, Shanghai Securities News, Securities Times and website of Shanghai Stock Exchange ("SSE") on 2 June 2009.

CHANGES IN SHARES SUBJECT TO RESTRICTIONS ON SALES

(Unit: Share)

Name of shareholders	Number of shares subject to restrictions on sales at the beginning of the year	Number of shares released from restrictions on sales during the year	Increase in the number of shares subject to restrictions on sales during the year	Number of shares subject to restrictions on sales at the end of the year	Reason for restrictions on sales	Date on which shares become tradable
Shougang Corporation	569,234,462	299,600,000	0	269,634,462	(Please refer to Note 1)	8 June 2009
State Grid Corporation of China	493,200,393	239,680,000	0	253,520,393	(Please refer to Note 1)	8 June 2009
Deutsche Bank Aktiengesellschaft	562,373,461	0	0	295,000,000	(Please refer to Note 2)	–
				267,373,461	(Please refer to Note 1)	–
Hongta Tobacco (Group) Co., Ltd.	209,720,000	209,720,000	0	0		8 June 2009
Runhua Group Co., Ltd.	180,000,000	229,000,000	49,000,000	0	(Please refer to Note 3)	8 June 2009
Sal. Oppenheim Jr. & Cie. Kommanditgesellschaft Auf Aktien	119,840,000	119,840,000	0	0		8 June 2009
Deutsche Bank Luxembourg S.A.	121,000,000	0	0	121,000,000	(Please refer to Note 2)	–
Beijing Sanjili Energy Co., Ltd.	94,640,000	94,640,000	0	0		8 June 2009
Baotou Huazi Industrial Co., Ltd.	73,920,000	73,920,000	0	0		8 June 2009
Shanghai Giant Biological Science Co., Ltd.	70,840,000	70,840,000	0	0		8 June 2009
Shanghai Construction (Group) Co., Ltd.	55,440,000	55,440,000	0	0		8 June 2009
China Automobile Holding Co., Ltd.	44,940,000	44,940,000	0	0		8 June 2009
Luen Tai Group Co., Ltd.	49,000,000	0	-49,000,000	0	(Please refer to Note 3)	–
China Construction First Division Construction & Development Co., Ltd.	22,176,000	22,176,000	0	0		8 June 2009
Jiangsu Traffic Holding Co., Ltd.	22,176,000	22,176,000	0	0		8 June 2009
Suzhou Yingcai Investment Group Corporation	17,976,000	17,976,000	0	0		8 June 2009
Beijing Jing'en Technology Development Co., Ltd.	14,700,000	14,700,000	0	0		8 June 2009
Shanghai Industrial Investment (Holdings) Co., Ltd.	11,088,000	11,088,000	0	0		8 June 2009
Jiangsu Oil Exploration Corporation of China Petrochemical Corporation	8,988,000	8,988,000	0	0		8 June 2009
Tangshan Steel Group Co., Ltd.	7,392,000	7,392,000	0	0		8 June 2009
Yangzi Petrochemical Corporation of China Petrochemical Corporation	7,392,000	7,392,000	0	0		8 June 2009
Baoding Chang'an Passenger Car Manufacture Corporation	7,392,000	7,392,000	0	0		8 June 2009
Zhuhai Zhenhua Group Co., Ltd.	7,392,000	7,392,000	0	0		8 June 2009
Handan Steel Group Co., Ltd.	5,992,000	5,992,000	0	0		8 June 2009
Zhejiang Silk Group Co., Ltd.	5,992,000	5,992,000	0	0		8 June 2009
SIIC Investment (Shanghai) Co., Ltd.	4,435,200	4,435,200	0	0		8 June 2009
Shanghai Branch of China Construction Bank Corporation	2,217,600	2,217,600	0	0		8 June 2009
Beijing Vanion Investment Group	571,200	571,200	0	0		8 June 2009
Total	2,790,028,316	1,583,500,000	0	1,206,528,316	–	–

Note: 1. On 15 October 2008, the Company issued 790,528,316 shares subject to restrictions on sales in a non-public manner to Shougang Corporation, State Grid Corporation of China and Deutsche Bank Aktiengesellschaft (Deutsche Bank) who subscribed to 269,634,462 shares, 253,520,393 shares and 267,373,461 shares, respectively. The shares that the said investors subscribed to are locked for 36 months from 20 October 2008. The Company will apply to Shanghai Stock Exchange ("SSE") for the non-public offering of these shares on 20 October 2011.

2. Deutsche Bank and its related party, Deutsche Bank Luxembourg S.A. made the following commitment on the lock-up period of 416 million non-tradable shares they subscribed to: they will not dispose all and/or part of these shares and relevant interests by means of sales, assignment, deposit, pledge or any other ways, or assign or pledge any rights under these shares to any other person by any other ways within 5 years from the delivery of these shares, unless otherwise required by relevant laws and regulations or regulatory authorities.

3. On 23 March 2009, 49 million shares subject to restrictions on sales held by Luen Tai Group Co., Ltd. was publicly auctioned according to the judgment of Shandong Higher People's Court. Runhua Group Co., Ltd. purchased these shares by bidding and went through the registration on 8 April 2009.

II. DETAILS OF SHARE AND BOND ISSUANCE AND INITIAL PUBLIC OFFERING

i. Share and bond issuance in the previous three years

(Unit: share and RMB)

Type of shares and derivative bonds	Issuing date	Issuing price (RMB)	Volume	Listing date	Volume approved to be listed
A share	15 October 2008	14.62	790,528,316	20 October 2008	0

Note to the issuance in the previous three years:

The Company issued 790,528,316 ordinary shares denominated in RMB (A share) to Shougang Corporation, State Grid Corporation of China and Deutsche bank with the issuing price of RMB14.62 per share and the total fund-raising amount of RMB11,557,523,990.49, as reviewed and approved by the first Extraordinary General Meeting of the Company in 2008, which was also approved in the Reply of China Banking Regulatory Commission ("CBRC") on the Plan of Hua Xia Co., Limited for Non-public Offering of Shares and the Share Increase by Deutsche Bank (Y.J.F.(2008) No. 218) and the Reply of China Securities Regulatory Commission ("CSRC") on the Verification for Non-public Offering of Shares of Hua Xia Co., Limited (ZH.J.X.K (2008) No.1042). These shares are locked for 36 months from 20 October 2008. The Company will apply to SSE for the non-public offering of these shares on 20 October 2011.

Except the said non-public offering, no more shares and derivative bonds have been issued in the previous three years as at the end of the reporting period.

ii. Total number of shares and changes in structure of shares in the reporting period

On 8 June 2009, the Company had issued 1,583.5 million shares subject to restrictions on sales, thus changing the structure of shares. The number of shares subject to restrictions on sales decreased from to 2,790,028,316 to 1,206,528,316 and that of shares not subject to restrictions on sales increased from 2,200.5 million to 3,784 million.

Dates on which shares subject to restrictions on sales become tradable

(Unit: Share)

Date	Number of shares tradable at the expiration of the lock-up period	Number of outstanding shares subject to restrictions on sales	Number of outstanding shares not subject to restrictions on sales	Remark
18 May 2011	416,000,000	790,528,316	4,200,000,000	
20 October 2011	790,528,316	0	4,990,528,316	

iii. During the reporting period, the Company did not have any employees shares.

III. PARTICULARS OF SHAREHOLDERS

i. Number of Shareholders and Particulars of Shareholding

(Unit: share)

Total number of shareholders	192,775						
Particulars of shareholding of the top 10 shareholders							
Name of shareholder	Nature of shareholder	Increase/ decrease in the reporting period	Shareholding percentage (%)	Total number of shares held	Number of shares subject to restrictions on sales	Number of pledged or locked-up shares	
						Status of shares	Number
Shougang Corporation	State-owned legal person	0	13.98	697,646,942	269,634,462	None	
State Grid Corporation of China	State-owned legal person	0	11.94	595,920,393	253,520,393	None	
Deutsche Bank Aktiengesellschaft	Foreign legal person	0	11.27	562,373,461	562,373,461	None	
Hongta Tobacco (Group) Co., Ltd.	State-owned	0	6.00	299,600,000	0	None	
Runhua Group Co., Ltd.	Domestic non-state-owned legal person	43,317,512	4.95	247,000,000	0	Pledged	229,000,000
Sal. Oppenheim Jr. & Cie. Kommanditgesellschaft Auf Aktien	Foreign legal person	0	3.43	171,200,000	0	None	
Deutsche Bank Luxembourg S.A.	Foreign legal person	0	2.42	121,000,000	121,000,000	None	
Beijing Sanjili Energy Co., Ltd.	State-owned legal person	-6,975,300	2.35	117,442,972	0	Pledged	59,000,000
Baotou Huazi Industrial Co., Ltd.	State-owned legal person	-13,171,014	1.75	87,188,986	0	Pledged	42,870,000
Shanghai Giant Biological Science Co., Ltd.	Domestic non-state-owned legal person	-9,270,000	1.74	86,930,000	0	None	

Particulars of shareholding of the top 10 shareholders not subject to restrictions on sales		
Name of shareholder	**Number of shares not subject to restrictions on sales**	**Type of shares**
Shougang Corporation	428,012,480	RMB ordinary share
State Grid Corporation of China	342,400,000	RMB ordinary share
Hongta Tobacco (Group) Co., Ltd.	299,600,000	RMB ordinary share
Runhua Group Co., Ltd.	247,000,000	RMB ordinary share
Sal. Oppenheim Jr. & Cie. Kommanditgesellschaft Auf Aktien	171,200,000	RMB ordinary share
Beijing Sanjili Energy Co., Ltd.	117,442,972	RMB ordinary share
Baotou Huazi Industrial Co., Ltd.	87,188,986	RMB ordinary share
Shanghai Giant Biological Science Co., Ltd.	86,930,000	RMB ordinary share
Shanghai Construction (Group) Co., Ltd.	79,200,000	RMB ordinary share
China Automobile Holding Co., Ltd.	64,200,000	RMB ordinary share
Remarks on the connected relation or concerted action of the above shareholders	In the reporting period, Deutsche Bank Luxembourg S.A. was a wholly-owned subsidiary of Deutsche Bank; the Company has no knowledge of any other connected relations among other shareholders.	

Note: Deutsche Bank completed the delivery of 100% shares of SAL. OPPENHEIM JR. & CIE.S.C.A. which holds 100% interests of Sal. Oppenheim Jr. & Cie. Kommanditgesellschaft Auf Aktien. For details, please refer to the provisional announcement of the Company on 18 March 2010.

ii. Share transfer

1. On 23 March 2009, 49 million shares subject to restrictions on sales held by Luen Tai Group Co., Ltd. was publicly auctioned according to the judgment of Shandong Higher People's Court. Runhua Group Co., Ltd. purchased these shares by bidding and went through the registration on 8 April 2009.

2. In September 2009, State-owned Assets Supervision and Administration Commission of the State Council (SASAC) approved the transfer of 595,920,393 shares held by State Grid Corporation of China in the Company to SGCC Asset Management Co., Ltd whose qualification as a shareholder has been reviewed and approved by the 15th meeting of the fifth Board of Directors of the Company and is waiting to be approved by CBRC.

3. On 16 November 2009, Deutsche Bank, a shareholder of the Company acquired 171,200,000 shares held by Sal. Oppenheim Jr. & Cie. Kommanditgesellschaft Auf Aktien in the Company according to an agreement, which is waiting to be approved by regulatory authorities.

iii. Number of shares held by shareholders subject to restrictions on sales and restrictions on sales

(Unit: share)

No.	Name of shareholders subject to restrictions on sales	Number of shares subject to restrictions on sales held	Public offering of shares		Restrictions on sales
			Date on which shares become tradable	Number of new shares that can become tradable	
1	Shougang Corporation	269,634,462	2011.10.20	269,634,462	The Company issued 790,528,316 ordinary shares subject to restrictions on sales in a non-public manner. The shares all investors subscribed to will be locked for 36 months from 20 October 2008. The Company will apply to SSE for the non-public offering of these shares on 20 October 2011.
2	State Grid Corporation of China	253,520,393	2011.10.20	253,520,393	The Company issued 790,528,316 ordinary shares subject to restrictions on sales in a non-public manner. The shares all investors subscribed to will be locked for 36 months from 20 October 2008. The Company will apply to SSE for the non-public offering of these shares on 20 October 2011.
3	Deutsche Bank	562,373,461	2011.05.18	295,000,000	It will not dispose all and/or part of shares it acquired and relevant interests by means of sales, assignment, deposit, pledge or any other ways, or assign or pledge any rights under these shares to any other person by any other ways within 5 years from the delivery of these shares, unless otherwise required by relevant laws and regulations or regulatory authorities.
			2011.10.20	267,373,461	The Company issued 790,528,316 ordinary shares subject to restrictions on sales in a non-public manner. The shares all investors subscribed to will be locked for 36 months from 20 October 2008. The Company will apply to SSE for the non-public offering of these shares on 20 October 2011.
4	Deutsche Bank Luxembourg S.A.	121,000,000	2011.05.18	121,000,000	It will not dispose all and/or part of shares it acquired and relevant interests by means of sales, assignment, deposit, pledge or any other ways, or assign or pledge any rights under these shares to any other person by any other ways within 5 years from the delivery of these shares, unless otherwise required by relevant laws and regulations or regulatory authorities.

iv. Particulars of shareholders holding over 5% shares of the Company

The Company has no controlling shareholders or de facto controller. The largest shareholder of the Company remained unchanged during the reporting period.

1. Shougang Corporation

Founded on 15 October 1992, Shougang Corporation grew out of Shijingshan Steel and Iron Works established in 1919 which was reorganized into Shougang Group in September 1996. As the parent company of Shougang Group, Shougang Group operates all the assets of Shougang Group. On 2 August 1999, Shougang Corporation, as a state-owned asset investment entity authorized by People's Government of Beijing Municipality, was restructured into a solely state-owned company as approved by the State Economic and Trade Commission and People's Government of Beijing Municipality. The registered capital was RMB7,263.94 million and Mr. Zhujimin was the legal representative. Shougang Corporation is a large enterprise group with the operation covering different industries, regions and countries. Its core business includes manufacturing, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, science research and comprehensive technology service, domestic commerce, restaurants, material supply, warehouse, real estate, residential service, consultation, leasing, agriculture, forestry, husbandry, fishery (except those without special license) and authorized state-owned asset management.

The shareholding relation between Shougang Corporation as the largest shareholder and the Company

State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality

↓ 100%

Beijing State-owned Assets Operation and Management Center

↓ 100%

Shougang Corporation

↓ 13.98%

Hua Xia Bank Co., Ltd.

2. State Grid Corporation of China ("SGCC")

SGCC was founded on 29 December 2002 as a pilot state-owned corporation by the State Council with the registered capital of RMB200 billion and Mr. Liu Zhenya as the legal corporate representative. As a backbone state-owned enterprise that may affect national energy safety and economic lifelines, SGCC's core business is to build and operate power grids and provided secure and reliable power supply for the development of the society. Its main business covers industrial investment and operation and management; power acquirement and sales; power trading and dispatch among the power grids of different areas; investment, construction and operation of relevant cross-region electric transmission and transformation and grid building; scientific research, technology development, dispatch of power generation, information and communication and consultation service, etc.

3. Deutsche Bank Aktiengesellschaft

Deutsche Bank Aktiengesellschaft, incorporated in Frankfurt, Germany, is a limited liability company, with Mr. Josef Ackerman as the legal corporate representative and the registered capital of EUR1.589 billion. It is engaged in various banking businesses by itself or its subsidiaries or associated companies provides various services including capital, fund management, real estate finance, financing, research and consultation etc. As long as in compliance with the law, Deutsche Bank is entitled to deal with various transactions, take various measures helpful to the realization of its objective, especially in respect of the purchase and assignment of real estate, establishment of branches both at home and abroad, purchase, management and sales of its interests in other enterprises and conclusion of agreements with them.

4. Hongta Tobacco (Group) Co., Ltd.

Restructured from the former Yuxi Cigarette Plant on 15 September 1995, Hongta Tobacco (Group) Co., Ltd is a wholly-owned subsidiary of China Tobacco Yunnan Industrial Corporation. Its registered capital is RMB6 billion and Mr. Li Suiming is its legal corporate representative. It is a group corporation with diversified businesses covering manufacturing, production and sales of tobacco, manufacturing and sales of tobacco equipment, purchase and sales of tobacco supporting materials and it is also engaged in many areas by means of external investment such as energy, transportation, chemistry, machine, building materials and advanced technology.

SECTION V
DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND BASIC INFORMATION ON EMPLOYEES

I. BASIC INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

i. Change of shares held by directors, supervisors and senior management members and their remuneration

Name	Position	Gender	Year of birth	Tenure	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Increase/ decrease of shares during the reporting period	Remuneration (in RMB10,000) (before tax) paid by the Company during the reporting period)
Wu Jian	Chairman	Male	1954	From 26 Dec.2008.12.26	0	0	0	240
	Director			28 Sep. 2007 – 28 Sep.2010				
Fang Jianyi	Vice Chairman	Male	1953	28 Sep. 2007 – 28 Sep.2010	0	0	0	5.3
Li Ruge	Vice Chairman	Male	1963	28 Sep. 2007 – 28 Sep.2010	0	0	0	4.9
Sun Weiwei	Director	Female	1955	28 Sep. 2007 – 28 Sep.2010	0	0	0	5.3
Ding Shilong	Director	Male	1963	28 Sep. 2007 – 28 Sep.2010	0	0	0	3.3
Colin Grassie	Director	Male	1961	28 Sep. 2007 – 28 Sep.2010	0	0	0	4.1
Till Staffeldt	Director	Male	1966	28 Sep. 2007 – 28 Sep.2010	0	0	0	4.9
Fan Dazhi	Director	Male	1964	28 Sep. 2007 – 28 Sep.2010	0	0	0	191
	President			From 26 Dec. 2008				
Zhao Junxue	Director	Male	1958	28 Sep. 2007 – 28 Sep.2010	0	0	0	178
	Secretary of the Board							
Gao Peiyong	Independent Director	Male	1959	28 Sep. 2007 – 28 Sep.2010	0	0	0	15.1
Qi Yudong	Independent Director	Male	1966	28 Sep. 2007 – 28 Sep.2010	0	0	0	15.1
Mu Xinming	Independent Director	Male	1957	28 Sep. 2007 – 28 Sep.2010	0	0	0	10.3
Sheng Jiemin	Independent Director	Male	1941	28 Sep. 2007 – 28 Sep.2010	0	0	0	12.9
Luo Xiaoyuan	Independent Director	Female	1954	28 Sep. 2007 – 28 Sep.2010	0	0	0	12.9
Lu Jianping	Independent Director	Male	1963	28 Sep. 2007 – 28 Sep.2010	0	0	0	14.3
Cheng Yanhong	Chairperson of the Board of Supervisors	Female	1958	27 Sep. 2007 – 27 Sep.2010	0	0	0	240
Zhang Meng	Supervisor	Female	1958	28 Sep. 2007 – 28 Sep.2010	0	0	0	2.5
Tian Ying	Supervisor	Female	1965	28 Sep. 2007 – 28 Sep.2010	0	0	0	3.3
Guo Jianrong	Supervisor	Male	1962	28 Sep. 2007 – 28 Sep.2010	0	0	0	4.5
Liu Guolin	Supervisor	Male	1951	28 Sep. 2007 – 28 Sep.2010	0	0	0	2.5
Cheng Chen	Supervisor	Female	1975	28 Sep. 2007 – 28 Sep.2010	0	0	0	2.9
He Dexu	External Supervisor	Male	1962	28 Sep. 2007 – 28 Sep.2010	0	0	0	11.6
Chen Yulu	External Supervisor	Male	1966	28 Sep. 2007 – 28 Sep.2010	0	0	0	9.4
Li Guopeng	Chairman of the Labor Union	Male	1955	From 13 Oct. 2007	0	0	0	178
	Employee Supervisor			27 Sep. 2007 – 27 Sep.2010				
Li Qi	Employee Supervisor	Male	1958	27 Sep. 2007 – 27 Sep.2010	0	0	0	117
Zhang Guowei	Employee Supervisor	Male	1959	27 Sep. 2007 – 27 Sep.2010	0	0	0	93
Wang Yaoting	Vice President	Male	1963	28 Sep. 2007 – 28 Sep.2010	0	0	0	177
Li Xiang	Vice President	Male	1957	28 Sep. 2007 – 28 Sep.2010	0	0	0	177
Song Jiqing	Principal of Financial Affairs	Male	1965	From 17 Apr. 2009	0	0	0	128
Zhang Mingyuan	Former Independent Director	Male	1956	28 Sep. 2007 – 13 Mar. 2009	/	/	/	3.0
Liu Xifeng	Former Director	Female	1948	28 Sep. 2007 – 17 Apr. 2009	/	/	/	138
	Former Principal of Financial Affairs							
Total	/	/	/	/	/	/	/	2005.1

Note: 1. According to the Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors, directors and supervisors who receive remuneration from the Company should not claim the allowance; the allowance of directors and supervisors includes compensation for services, functionary allowance of committees and meeting subsidies. Compensation for services refers to the basic compensation to independent directors and external supervisors for their work in the Board of Directors and the Board of Supervisors, RMB50,000 (after tax) per head for each year; functionary allowance of committees refers to the functionary allowance to directors and supervisors for their work in the special committees, RMB1000 (after tax) per head for each month (RMB12,000 for each year). The directors and supervisors that work in many special committees will be paid according to the number of committees they work in; meeting subsidies refer to the subsidies to directors and supervisors for their attendance in the meetings of the Board of Directors and the Board of Supervisors, RMB3,000 (after tax) per meeting.

2. The remuneration of the senior management members of the Company is decided and paid in accordance with the Trial Measures of Hua Xia Bank Co., Limited on the Remuneration of Senior Management Members at the Head Office Level.

3. The total remuneration of the senior management members in 2009 covers their salaries in 2009 and their salaries and bonus payable in 2008.

4. President Fan Dazhi started receiving his remuneration from September 2007 and his bonus for 2007 paid in 2008 was decided on a monthly basis; his bonus for 2008 was decided according to the standard of a vice president in 2009.

5. Mr. Li Guopeng, Chairman of the Labor Union is paid according to the standard of a vice president.

6. The allowance of former Independent Director Zhang Mingyuan had been paid until the end of the first quarter of 2009.

7. Ms. Liu Xifeng, former Principal of Financial Affairs retired in April 2009.

ii. Position of directors and supervisors in shareholder entities

Name	Name of shareholder entity	Position	Tenure
Fang Jianyi	Shougang Corporation	Director, Chief Accountant	Jun. 1998 till now
Li Ruge	State Grid Corporation of China	Member of Leading Party Group, Chief Accountant	Nov. 2007 till now
Sun Weiwei	Shougang Corporation	Deputy General Manager	Nov. 2003 till now
Ding Shilong	State Grid Corporation of China	Deputy Head of the Financial Asset Management Department	Nov. 2005 till now
Colin Grassie	Deutche Bank Aktiengesellschaft	CEO in Britain	2009 till now
Till Staffeldt	Deutche Bank Aktiengesellschaft	Director of Private and Business Customers-Executive Director in Berlin	2009 till now
Zhang Meng	Hongta Tobacco (Group) Co., Ltd.	Chief Financial Officer	Dec. 2008 till now
Tian Ying	Beijing Sanjili Energy Co., Ltd.	Deputy General Manager and Chief Accountant	Dec. 1999 till now
Guo Jianrong	Baotou Huazi Industrial Co., Ltd.	Assistant to General Manager	2002 till now
Liu Guolin	Shanghai Construction (Group) Co., Ltd.	Director, Chief Accountant	Jan. 1994 till now

iii. Working experiences of directors, supervisors and senior management members and their positions or concurrent jobs in other entities

Wu Jian, Chairman of the Board of Directors, male, was born in March 1954. He obtains a bachelors degree and the title of senior economist. He previously served as Deputy Head of the Equipment Credit Division of Beijing Branch of Industrial and Commercial Bank of China ("ICBC"), as Deputy Head and Head of Chaoyang District Office of Beijing Branch of ICBC, as Deputy General Manager and Member of Leading Party Group and then General Manager and Secretary of Leading Party Group of Beijing Branch of Bank of Communications, as Member of Leading Party Group, Head of Discipline Inspection Team, Vice President and Member of the Party Committee; and as Director, President and Deputy Secretary of the Party Committee of the Hua Xia Bank Co., Ltd ("Hua Xia Bank"). He currently serves as Chairman and Secretary of the Party Committee of Hua Xia Bank.

Fang Jianyi, Vice Chairman, male, was born in July 1953. He holds a master degree and is a senior accountant and senior engineer. He served as Assistant to General Manager and Manager of the Financial Department of Shougang NEC Electronics Co., Ltd., as Deputy Head of the Financial Division of Shougang International Economic and Trade Department, as Deputy Head of the Financial Division of the Business Department of China Shougang International Trade & Engineering Corporation ("Shougang International"), as Assistant to General Manager of Shougang International, as Deputy General Manager of Shougang Shipping Company, as Head of the Financing Division of the Finance and Accounting Department of Shougang overseas Headquarter and Deputy Head of the Finance and Accounting Department of Shougang overseas Headquarter, as Deputy Head of the Development Department and Financial Assistant to General Manager of Shougang Corporation. He currently serves as Director and Chief Accountant of Shougang Corporation.

Li Ruge, Vice Chairman, male, was born in August 1963. He holds a master degree and is a senior accountant. He served as Deputy Director, Director and Member of the Party Committee of Shandong Heze Power Plant, as General Manager and Member of the Party Committee of Shandong Power Fuel Company, as Head of the Financial Department of Shandong Power Supply Bureau, as Director and Vice Chairman of Hua Xia Bank Co., Limited, as Director of Bank of Communications, as Vice Chief Accountant of Shandong Power Group Corporation (Bureau), as Vice Chairman of Xiangcai Securities Co., Ltd., as Chief Accountant and Director of Shandong Electric Power Group Corporation, as Chairman of Yingda International Trust Investment Corporation, as Deputy General Manager and Member of the Party Committee of Shandong Electric Power Group Corporation, as Chief Accountant of China Guodian Corporation and as Vice Chief Accountant, Head of the Financial Department and Head of the Fund Management Center of State Grid Corporation of China. He currently serves as Member of Leading Party Group and Chief Accountant of State Grid Corporation of China.

Sun Weiwei, Director, female, was born in June 1955. She holds a master degree and is a senior accountant, certified public accountant and practising certified tax agent. She served as Deputy Head and Head of the Financial Department, Deputy General Manager and Executive Deputy General Manager of Taiyuan Heavy Machinery Group Co., Ltd. and as Assistant to General Manager of Shougang Corporation. She currently serves as Deputy General Manager of Shougang Corporation.

Ding Shilong, Director, male, was born in July 1963. He holds a doctor degree in management and is a senior accountant. He has served as Deputy Chief and Chief of the General Financial Section of Henan Power Industry Bureau, as Deputy Head of the Financial Division, Assistant Consultant (holding a temporary leading post) of Electric Regulation Division and State-owned Asset Supervision Division of the Electric Power Department and Chief Accountant of Henan Power Company (Bureau) and as Chairman of Henan Kaixiang Electric Power Industrial Holding Co., Ltd. He currently serves as Deputy Head of the Financial Asset Management Department of State Grid Corporation of China, Deputy General Manager and Member of Leading Party Group of SGCC Asset Management Co., Ltd.

Colin Grassie, Director, English, male, was born in June 1961. He holds a master degree. He previously served in J.P. Morgan and worked as Chief Supervisor of the Global Market Sales Department (Asia), Chief Supervisor of the Global Market Sales Department (Europe), Chief Supervisor of the Global Market Department (Europe) and CEO of Asia-Pacific region (excluding Japan) of Deutsche Bank. He currently serves as CEO of English region of Deutsche Bank.

Till Staffeldt, Director, German, male, was born in April 1966. He currently serves as Chief Supervisory Officer of Private and Business Clients of Berlin region and Executive Director of Deutsche Bank. He obtains a bachelor's degree. He worked at Deutsche Commercial Bank and Local High Court of Dusseldorf. In January 1997, he began to work in Deutsche Bank and he took the positions in the Credit Risk Management and the Corporate Banking and Real Estate and joined in the Development in February 2001. From 1 November 2004, He served as Director of the Corporate Development of Asia-Pacific region. In 2006, He came to the Private and Clients Department and served as Director of Private and Business Clients of Global Business Management. Since 2009, He has served as Chief Supervisory Officer of Private and Business Clients of Berlin region.

Fan Dazhi, Director and President, male, was born in September 1964. He holds a master degree and is a senior accountant. He previously served as a teacher of Dongbei University of Finance and Economics, as General Manager of the Head Office of Investment Bank of Beijing International Trust and Investment Co, Ltd., as Member of the Leading Party Group and Deputy Head of Beijing Overseas Financing and Investment Management Center, as Member of the Leading Party Group, Director and Deputy General Manager of Beijing State-owned Assets Management Co., Ltd., as Vice Secretary of the CCP Committee, Director and General Manager of Beijing Securities Co., Ltd., as Chairperson of the Board of Supervisors of UBS Securities Company Limited and as Director, Vice Secretary of the Party Committee, Vice President, Executive Vice President of Hua Xia Bank Co., Limited ("Hua Xia Bank"). He currently serves as Director, President and Vice Secretary of the Party Committee of Hua Xia Bank and held a concurrent post as Secretary of the Party Committee in Beijing Branch of Hua Xia Bank from October 2009.

Zhao Junxue (alias: Zhao Jingxue), Director, Secretary of the Board, male, born in April 1958. He holds a master degree and is a senior economist. He served as Assistant to General Manager of Nanfang Branch of China National Packaging Corporation, as Deputy General Manager and General Manager of Yuehai Finance Holding Co., Ltd., and as Secretary of Leading Party Group and President of Shenzhen Branch of Hua Xia Bank Co., Limited ("Hua Xia Bank"). He currently holds the position of Director and Secretary of the Board of Hua Xia Bank.

Gao Peiyong, Independent Director, male, was born in January 1959. He holds a doctor degree and is a professor. He was once a lecturer and associate professor of the Finance Department of Tianjin University of Finance and Economics, Assistant to the President and professor of China People's University. He currently serves as Secretary of the Party Committee, Deputy Dean and professor of Finance and Trade Institute of China Academy of Social Science.

Qi Yudong, Independent Director, male, was born in September 1966. He holds a doctor degree and he is a professor and doctoral supervisor. He once was a teacher of the Finance Department of Capital University of Economics and Business, Executive Associate Editor and Head of the Editorial Department of the Journal of Capital University of Economics and Business, Deputy Head of the Department of Enterprise Management, Executive Deputy Director and Director of MBA Education Center of Capital University of Economics and Business. He currently serves as Head of the China Industrial Economy Research Center and Dean of the College of Business Administration of Capital University of Economics and Business.

Mu Xinming, Independent Director, American, male, was born in May 1957. He holds a doctor degree and is a professor. He served as investment advisor at the Infrastructure Bureau of the World Bank in Washington DC USA, International Development Organization of the United Nations and United States Agency for International Development, as project officer of the Asian Development Bank in Manila Philippine, as professor of the University of Texas and as Vice President of Asia-Pacific region of Salomon Brothers. He currently serves as President of Wonson International Holdings Limited and Chairman of Qiao Wei Assets Management Co., Ltd.

Sheng Jiemin, Independent Director, male, was born in March 1941. He has a bachelor's degree and a title of professor. He used to teach in East China University of Politics and Law, Shanghai Fudan University and the Law School of Beijing University. He is now Director of Economic Law Research Institute of Beijing University.

Luo Xiaoyuan, Independent Director, female, was born in January 1954. She has a bachelor's degree and a title of senior economist. She served as Associate Editor and Head of the Editorial Department of the Finance Research, as Head of the Editorial Department of the Journal of Accounting Society of China and the Journal of The Chinese Institute of Certified Public Accountants, as a member and Head of the General Office of the National Examination Commission of Certified Public Accountants, as Chief Accountant and Head of the Registration Center of Chinese Institute of Certified Public Accountants, etc.

Lu Jianping, Independent Director, male, was born in December 1963. He holds a doctor degree and is a doctoral supervisor and professor. He served as a lecturer and associate professor of the Philosophy Department of Zhejiang University, as Director of the Foreign Economic Law Research Institute of Zhejiang University, as Dean and professor of the International Economic Law Department of Zhejiang University and as Executive Head of the Criminal Law Research Center of People's University of China. He currently serves as Deputy Dean of the Criminal Law Science Research Institute of Beijing Normal University.

Cheng Yanhong, Chairperson of the Board of Supervisors, female, was born in February 1958. She gets a bachelor's degree and a title of senior accountant. She served as Deputy Head of the General Affairs Division, Deputy Head and Head of the Debt Division, Member of Leading Party Group and Deputy Director General of Beijing Finance Bureau, as Secretary of the Party Committee and General Manager of Beijing Securities Co., Ltd., as Deputy Secretary and Secretary of the Beijing Finance Working Committee and as Head of the Finance Office of Beijing Municipal Government. She currently serves as Chairperson of the Board of Supervisors, Deputy Secretary of the Party Committee and Secretary of Discipline Inspection Committee of Hua Xia Bank Co., Limited.

Zhang Meng, Supervisor, female, was born in October 1958. She holds a master degree and is an assistant accountant. She served as Deputy Chief and Chief of the Industrial Finance and Accounting Section, Associate Chief Accountant and Financial Director of Yuxi Hongta Tobacco (Group) Co., Ltd. She currently serves as Financial Director of Hongta Tobacco (Group) Co., Ltd.

Tian Ying, Supervisor, female, was born in April 1965. She holds a master degree and is a senior accountant. She served as a teacher of Beijing Finance College and as Manager of the Fund and Finance Department of Beijing Sanjili Energy Co., Ltd. She currently serves as Deputy General Manager and Chief Accountant of Beijing Sanjili Energy Co., Ltd.

Guo Jianrong, Supervisor, male, was born in August 1962. He obtains a bachelor's degree and the title of economist. He served as an accountant of the savings bank, staff of the Survey and Research Office, Deputy Chief of the Plan and Survey

Section, Deputy Chief of the General Plan Section (responsible for work) etc. of Baotou Branch of the People's Bank of China, as Principal of the Plan and Credit Department, Principal, Deputy Head and Head of the General Plan Division, Manager of the Savings and Deposit Department, Manager of the Business Department etc. of Baotou Branch of Bank of Communications. He currently serves as Assistant to General Manager of Baotou Huazi Industrial Co., Ltd.

Liu Guolin, Supervisor, male, was born in March 1951. He holds a bachelor's degree and is a senior accountant. He served as Deputy Head and Head of the Finance and Accounting Division of Shanghai Construction Engineering Bureau. He currently serves as Director and Chief Accountant of Shanghai Construction (Group) Corporation.

Cheng Chen, Supervisor, female, was born in March 1975. She holds an EMBA degree. She previously served as Deputy General Manager of Shanghai Giant Biotech Co., Ltd. She currently takes the positions of Executive General Manager of Giant Investment Co., Ltd. and Deputy General Manager of Shanghai Goldpartner Biotech Co., Ltd.

He Dexu, External Supervisor, male, was born in September 1962. He holds a doctor degree in economics and is a professor. He previously served as Head and Director General of the Scientific Research Organization Division of the Trade and Economics Research Institute of China Academy of Social Science. He currently serves as Deputy Director General of the Quantitative Economics and Technological Economy Research Institute, Deputy Head of the Financial Research Center and as professor and doctoral supervisor of the Graduate School of China Academy of Social Science. He holds concurrent positions of Executive Director of China Society of Finance & Banking and Executive Director of The Investment Association of China.

Chen Yulu, External Supervisor, male, was born in November 1966. He holds a doctor degree and is a professor. He served as Deputy Dean and associate professor of the Finance Department (College) and as Deputy Dean and professor of the Finance and Banking Department of the People's University of China. He currently serves as Vice President of the People's University of China and Vice President of China International Society of Finance & Banking.

Li Guopeng, Employee Supervisor, male, was born in February 1955. He holds a master degree and is a senior economist. He served as Deputy Director of the Financial Research Institute and Deputy Head of the Financial System Reform Office, Head of the Survey Information Division of Shandong Branch of People's Bank of China ("PBOC") and as President of Tai'an Branch of PBOC and Director General and Secretary of Leading Party Group of Tai'an Branch of State Administrative of Foreign Exchange. He successively took several positions in Hua Xia Bank Co., Limited ("Hua Xia Bank"), including Secretary of Leading Party Group and President of Jinan Branch, Assistant to President, Member of Leading Party Group, Vice President and Secretary of Leading Party Group of the Business Department of the Head Office, General Manager, Vice President and Member of the Party Committee. He currently serves as Chairman of Trade Union and Member of the Party Committee of Hua Xia Bank.

Li Qi, Employee Supervisor, male, was born in August 1958. He gets a bachelor's degree and a title of senior economist. He once was a teacher of the Law Department of Shandong University, Vice General Manager of Rural Credit Cooperative of China in Shandong and Vice General Manager of Shandong Yingtai Group Corporation. He took several positions in Hua Xia Bank Co., Limited ("Hua Xia Bank"), including Head of the Audit and Compliance Department of Jinan Branch, Member of the Discipline Inspection Committee, General Manager of the Legal Affairs Department and Special Assets Resolution Department, Secretary of the Party Committee and President of Chongqing Branch. He currently serves as General Manager of the Audit Department of Hua Xia Bank.

Zhang Guowei, Employee Supervisor, male, was born in October 1959. He obtains a bachelor's degree and a title of senior political engineer. He was once the Principal of Beijing Office, Deputy Head of the Fund and Credit Division and Head of Beijing Office of China Rural Area Development Trust and Investment Corporation Beihai Representative Office. He took several positions in Hua Xia Bank Co., Limited ("Hua Xia Bank"), including Vice President (responsible for work) of Dongsi Sub-branch of the Beijing Management Department, Office Director of the Business Department of the Head Office and Head of the Security Department of the Head Office, Member of Leading Party Group, Head of the Discipline Inspection Team of Dalian Sub-branch, Deputy General Manager and General Manager of the Legal Affairs Department (responsible for work). He currently serves as General Manager of the Compliance Department of Hua Xia Bank.

Wang Yaoting, Vice President, male, was born in July 1963. He holds a doctor degree and is a senior economist. He served as Deputy Head of the Teaching Materials Division of the Education Department of the People's Bank of China and previously took several positions in Hua Xia Bank Co., Limited ("Hua Xia Bank"), including Deputy Head (responsible for work) of the Trust and Lease Department, Head of the Securities Department and General Manager of the Securities Business Department, Assistant to President, Assistant to President and General Manager of the Business Department, a member of non-performing loan disposition and collection team, Deputy Head of the Office of the Board of Supervisors of the Head Office, Deputy Secretary of Leading Party Group, Vice President, Secretary of Leading Party Group (the Party Committee) and President of Hangzhou Branch and Assistant to President of Hua Xia Bank (concurrently Head of the Internationalized Reform Office). He currently serves as Vice President and Member of the Party Committee of Hua Xia Bank.

Li Xiang, Vice President, male, was born in December 1957. He holds a master degree and is a senior economist. He served as Secretary at deputy division level of General Office of Jiangsu Provincial Government and took several positions in Hua Xia Bank Co., Limited, including Head of the Business Department, Member of Leading Party Group, Vice President, Secretary of Leading Party Group (the Party Committee) and President of Nanjing Branch and Assistant to President (concurrently General Manager of the Corporate Banking Department) of Hua Xia Bank Co., Limited ("Hua Xia Bank"). He currently serves as Vice President and Member of the Party Committee of Hua Xia Bank.

Song Jiqing, Principal of Financial Affairs, male, was born in January 1965. He holds a doctor degree and is an economist. He served as assistant consultant of Beijing Finance Bureau, as Member of Leading Party Group and Deputy Director General of Mentougou Tax Bureau, as Secretary of Leading Party Group and Director General of Mentougou Finance Bureau, as Assistant to Mayor of Mentougou District, as Member of Leading Party Group, Deputy Mayor and Head of the Information Research Department of Mentougou District Government and as Deputy Principal of Financial Affairs of Hua Xia Bank Co., Limited ("Hua Xia Bank"). He currently serves as Principal of Financial Affairs, Chief Financial Officer and General Manager of the Plan and Finance Department of Hua Xia Bank.

Name	Position or concurrent position in other entities excluding shareholder entities
Wu Jian	None
Fang Jianyi	Chairman of Xinbang Investment Co., Ltd.; Chairman of Bodi Investment Co., Ltd.; Chairman of Beijing West Industries Co., Ltd.
Li Ruge	None
Sun Weiwei	Chairman of Beijing Shougang Machinery & Electric Co., Ltd; Vice Chairman of Beijing Internal Audit Association and Vice Chairman of Beijing Audit Association
Ding Shilong	Director of Huatai Property Insurance Co., Ltd.; Supervisor of Guotai Junan Securities Co.,Ltd.; Director of China Power Finance Co., Ltd.; Chairman of the Board of Supervisors of YingdaTaihe Property Insurance Co., Ltd.
Colin Grassie	None
Till Staffeldt	None
Fan Dazhi	None
Zhao Junxue	None
Gao Peiyong	Secretary of the Party Committee, Deputy Dean and professor of the Finance and Trade Institute of China Academy of Social Science; Independent Director of Yantai Wanhua Co., Ltd.; Independent Director of Shougang Co., Ltd.
Qi Yudong	Head of China Industrial Economic Research Center and Dean of College of Business Administration of Capital University of Economics and Business; Independent Director of Zhongtong Bus Holding Co., Ltd.
Mu Xinming	President of Wonson International Holdings Limited; Chairman of Qiaowei Asset Management Co., Ltd.
Sheng Jiemin	Independent Director of Sunvim Group Co., Ltd., Hualu Hengsheng Group Co., Ltd., Tongli Cement and Xiangtan Electrical Machine Co., Ltd.
Luo Xiaoyuan	Independent Director of Harvest Fund Management Co., Ltd., External Supervisor of China Citic Bank
Lu Jianping	Executive Deputy Dean of the Criminal Law Science Research Institute of Beijing Normal University; Independent Director of Zhejiang Xinhu Zhongbao Co., Ltd.; Independent Director of Harbin High Technology Co., Ltd.
Cheng Yanhong	None
Zhang Meng	Director or Supervisor of Huatai Property Finance Insurance Co., Ltd., SDIC Yunnan Dachaoshanshui Electric Power Co., Ltd. and Yunnan Xinxing Investment Co., Ltd.
Tian Ying	None
Guo Jianrong	None
Liu Guolin	None
Cheng Chen	Executive General Manager of Giant Investment Co., Ltd.; Deputy General Manager of Shanghai Goldpartner Biotech Co., Ltd.
He Dexu	Deputy Director General of the Quantitative Economics and Technological Economy Research Institute, Deputy Head of the Financial Research Center, professor and doctoral supervisor of the Graduate School of China Academy of Social Science; Independent Director of Rongsheng Real Estate Development Co., Ltd.; Independent Director of CITIC-Prudential Fund Management Company Ltd.
Chen Yulu	Vice President of the People's University of China; Vice President of China International Society of Finance & Banking; Independent Director of Baoying Fund Management Co., Ltd.
Li Guopeng	None
Li Qi	None
Zhang Guowei	None
Wang Yaoting	None
Li Xiang	None
Song Jiqing	None

iv. Changes in directors, supervisors and senior management

In March 2009, the Board of Directors of the Company received the written resignation submitted by Independent Director Zhang Mingyuan. Mr. Zhang Mingyuan wanted to resign from Independent Director due to work changes.

In April 2009, the 12th Meeting of the fifth Board of Directors reviewed and approved the Proposal of the Resignation of Ms. Liu Xifeng from Principal of Financial Affairs of the Company and the Engagement of Mr. Song Jiqing as Principal of Financial Affairs of the Company.

II. EMPLOYEES

i. Employees of the Company

Total number of employees	12,301persons	Number of retired employees to whom the Company has to pay pension.	86 persons

ii. The structure of employees is as follows:

1. Profession

Profession	**Number of employees**
Management	2,657
Business	8,847
Security	797

2. Educational background

Educational background	**Number of employees**
Junior college education or above	12,058
Junior college education or below	243

SECTION VI
CORPORATE GOVERNANCE FRAMEWORK

I. SUMMARY OF CORPORATE GOVERNANCE

The Company adequately implements requirements of regulators relating to corporate governance, makes continuous improvement in corporate governance framework, brings more discipline to the operation of the Board of Directors, the Board of Supervisors and Senior Management and ensures compliance and steady, sound and rapid growth of the Company in accordance with the *Company Law of the People's Republic of China*, the *Commercial Bank Law of the People's Republic of China*, the *Guidelines on Corporate Governance of Joint-Stock Commercial Banks* and the *Guidelines on Due Diligence for Board of Directors of Joint-Stock Commercial Banks* and other relevant laws and regulations. Its core objective is to create the maximum value for shareholders over the long term with due regard for depositors' interests. During the reporting period, the Company modified its rules and procedures on corporate governance, adequately carried out special campaign on corporate governance inspection and further improved its corporate governance mechanism.

i. Modification of Rules and Procedures on Corporate Governance

The Articles of Association of Hua Xia Bank Co., Limited (the "Articles of Association") was modified in terms of profit distribution policy and duties of the secretary to the board pursuant to the *Decisions on Amending Provisions on Cash Dividends by Listed Companies* issued by CSRC and the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange*, taking into account specific conditions of the Company, to ensure the Articles of Association meet the latest regulatory requirements.

The *Procedures of Hua Xia Bank Co., Limited on Reporting Information by the Management to the Board of Supervisors* were developed to lay down the content, form, timing and procedure of information reporting, set out the Management's obligations and responsibilities on reporting to the Board of Supervisors, and ensure the Board of Supervisors' right to be informed of operations management activities of the Company.

ii. Special Campaign on Corporate Governance

Since CSRC launched the Special Campaign on Corporate Governance of listed companies (the "Special Campaign") in March 2007, the Company has effectively carried out the Special Campaign through self-inspection and self-correction, public review and improvement, increased the awareness of disciplined operation, improved the internal control system, looked for corporate governance problems comprehensively, and taken corrective actions against problems identified.

On 10 May 2007, the Company developed the action plan for compliance with regulatory requirements of the Special Campaign, established the Leadership Group of Special Campaign on Corporate Governance (the "Leadership Group"), reinforced organization and leadership of that work and made clear work requirements in line with documents issued by CSRC and CSRC Beijing Office. Under leadership and oversight of the Leadership Group and based on comprehensive self-examination and review across the Company, the *Self-examination Report on the Special Campaign on Corporate Governance of Hua Xia Bank Co., Limited* was developed and published on the website of Shanghai Stock Exchange, *Shanghai Securities News, China Securities Journal* and *Securities Times* on 16 June 2007.

During 14-17 August 2007, the Company assisted CSRC Beijing Office in successfully completing onsite inspection. In the improvement stage, the Company took such measures as further restructuring and providing compliance due diligence education in response to assessment opinions of CSRC and CSRC Beijing Office and problems detected in self-inspection, and developed and disclosed on 28 December 2007 the *Correction Report on the Special Campaign on Corporate Governance of Hua Xia Bank Co., Limited.*

In June 2008, CSRC issued *the Notice on the Announcement of the Special Campaign on Corporate Governance* requesting further implementation of the campaign in addition to consolidating outcomes of the campaign delivered in 2007.

After further review of corrective actions set out in the Corrective Action Plan from the respective of whether problems had been corrected within the specified time limit, reasons for failure to do so and remedial measures to be taken, correction status of problems relating to continuous improvement and planned further improvements, the Company developed and disclosed on 23 July 2008 the *Follow-up Work Report on the Special Campaign on Corporate Governance of Hua Xia Bank Co., Limited*, signifying full completion of the follow-up work on the Special Campaign.

In 2009, the Company actively participated in the "Year of Corporate Governance Improvement of Listed Companies" program as required by the *Notice on Work Concerning Corporate Governance of Listed Companies in 2009* (SH.SH.B.H. [2009] No. 88). This program has effectively helped the Company build its internal disclosure management system and internal control system, bring more discipline to the operation of the General Meeting of Shareholders, the Board of Directors and the Board of Supervisors and significantly improve decision-making reasonableness of the Board of Directors and supervisory effectiveness of the Board of Supervisors.

iii. Shareholders and the General Meeting of Shareholders

The Company has no controlling shareholder.

In 2009, the Company called and held one meeting and adopted 15 resolutions in accordance with the *Rules on General Meetings of Shareholders of Listed Companies*, the Articles of Association and the rules of procedure of the General Meeting of Shareholders of the Company. The Company has established and maintains effective communication with shareholders, increases representation of public shareholders at the General Meeting of Shareholders and ensures equality of shareholders and their full exercise of rights, including the rights to be informed of, participate in and vote on significant matters of the Company.

iv. Directors and the Board of Directors

1. Composition of the Board of Directors and its activities

The Board of Directors of the Company consisted of 15 directors as at the end of the reporting period, including 6 independent directors and 3 executive directors. The Board of Directors strictly follows applicable laws and regulations and the Articles of Association in respect of decision-making, authorization and voting procedures. In 2009, the Board of Directors held 6 meetings and adopted 48 resolutions in accordance with the Articles of Association and the rules of procedure of the Board of Directors. All directors attended these meetings, reviewed proposals, and exercised their rights and performed their obligations with due diligence.

Attendance of Directors at Meetings of the Board

Name of director	Independent director (Yes or no)	Meetings to be attended this year	Meetings attended in person	Meetings attended by correspondence	Meetings attended by proxy	Absence	Absent from two consecutive meetings (Yes or no)
Wu Jian	No	6	3	3	0	0	No
Fang Jianyi	No	6	2	3	1	0	No
Li Ruge	No	6	1	3	2	0	No
Sun Weiwei	No	6	2	3	1	0	No
Ding Shilong	No	6	2	3	1	0	No
Colin Grassie	No	6	1	2	2	1	No
Till Staffeldt	No	6	2	2	1	1	No
Fan Dazhi	No	6	3	3	0	0	No

Zhao Junxue	No	6	3	3	0	0	No
Gao Peiyong	Yes	6	3	3	0	0	No
Qi Yudong	Yes	6	3	3	0	0	No
Mu Xinming	Yes	6	1	3	2	0	No
Luo Xiaoyuan	Yes	6	3	3	0	0	No
Sheng Jiemin	Yes	6	3	3	0	0	No
Lu Jianping	Yes	6	2	3	1	0	No
Number of meetings of the Board held this year			6				
Of which: Number of onsite meetings			3				
Number of meetings held by correspondence			3				
Number of meetings held onsite and by correspondence			0				

2. Operation of Specialist Committees of the Board of Directors

In 2009, all specialist committees of the Board of Directors operated in a well-disciplined manner and seriously performed their functions and powers.

The Strategy Committee conducted two meetings and surveys; reviewed the annual work plan of the Strategy Committee; and listened to reports on implementation of the five-year development plan of the Corporate Banking Department and Beijing Branch.

The Risk Management Committee conducted five meetings and surveys; reviewed the annual work plan, the annual risk management report and quarterly market risk management reports, the market risk management strategy, the operational risk management strategy, the credit risk management strategy and the operational risk management policy of the Risk Management Committee; and listened to reports on related transaction management of Beijing Branch and Kunming Branch.

The Related Transactions Control Committee conducted three meetings and surveys, reviewed the annual work plan, the audit report on related transactions, reports on compliance with related transaction management rules and related transactions, and the proposal on general banking facility of Shougang Corporation, State Grid and Deutsche Bank; and listened to reports on related transaction management of Beijing Branch and Kunming Branch.

The Nomination Committee conducted one meeting and reviewed the annual work plan of the Nomination Committee and the proposal on resignation of Ms. Liu Xifeng from and appointment of Mr. Song Jiqing as Financial Controller of the Company.

The Remuneration and Assessment Committee conducted two meetings; assessed and reviewed performance of directors and senior management members in 2008, organized mutual assessment of independent directors; and proposed the plan for performance assessment of senior management members in 2009.

The Audit Committee conducted five meetings and surveys; reviewed regular reports, the profit distribution plan, and the self-assessment report on internal control of the Company; and conducted a survey on cost and expense control of the Company in the first half of the year.

3. Establishment and Improvement and Major Contents of Work Rules about and Performance of Independent Directors

The *Work Rules for Independent Directors of Hua Xia Bank Co., Limited* set out qualifications, nomination, election, replacement, duties, obligations and performance assurance of independent directors, thereby ensuring independent directors perform their duties with due diligence. The *Work Rules on Annual Report for Independent Directors of Hua Xia Bank Co., Limited* set out better-designed procedures of annual report preparation, review and disclosure, providing adequate oversight by independent directors during preparation of the annual report.

As at the end of the reporting period, there were 6 independent directors on the Board of Directors of the Company, accounting for over one third of its members. In 2009, independent directors adequately attended meetings and reviewed proposals, performed the role of convener for the Related Transactions Control Committee, the Nomination Committee, the Remuneration and Assessment Committee and the Audit Committee and gave professional opinions on corporate governance and operations management activities in the interest of depositors and minor shareholders pursuant to laws, regulations and the Articles of Association.

Disagreements of independent directors on relevant issues of the Company: Not applicable.

v. Supervisors and the Board of Supervisors

1. Composition of the Board of Supervisors and its Activities

The Board of Supervisors of the Company consisted of 11 supervisors as at the end of the reporting period, including 2 outside supervisors and 4 employee supervisors, being in compliance with laws, regulations and the Articles of Association. In 2009, the Board of Supervisors held 4 meetings and adopted 19 resolutions in accordance with the Articles of Association and the rules of procedure of the Board of Supervisors. All supervisors adequately attended meetings as required, performed supervisory functions pursuant to laws, regulations and the Articles of Association, and organized and participated in special inspections with due diligence.

2. Operation of Specialist Committees of the Board of Supervisors

In 2009, the Audit Committee of the Board of Supervisors held four meetings and reviewed regular reports, assessment opinions on performance of directors and senior management members as well as special inspection reports and survey reports presented by the inspection group of the Board of Supervisors.

3. Outside Supervisors

There were two outside supervisors on the Board of Supervisors of the Company. Outside supervisors adequately attended meetings, reviewed proposals and gave independent opinions with due diligence pursuant to laws, regulations and the Articles of Association. They played the role of convener for specialist committees and organized and participated in special inspections and surveys of the Board of Supervisors.

vi. Information Disclosure and Investor Relations Management

The Company regulates day-to-day disclosures pursuant to the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange* and the *Information Disclosure Procedures of Hua Xia Bank Co., Limited* to ensure quick and unobstructed communication and effective management of significant information of the Company, laying a sound foundation for performance of information disclosure obligations. In 2009, pursuant to disclosure rules of CSRC and Shanghai Stock Exchange and disclosure policies of the Company, the Company prepared and disclosed 4 regular reports and 27 interim reports, ensured authenticity, accuracy, completeness and timeliness of disclosures, and communicated to investors such significant information as financial data, equity structure, corporate governance structure, related transactions and profit distribution.

In 2009, the Company furthered investor relations management to enhance its market image of integrity, steadiness and discipline. Meetings with institutional investors and industry analysts were held in 2009 to provide market participants with a better understanding of the Company and increase investors’ recognition of the Company value.

II. MANAGEMENT DECISION-MAKING SYSTEM OF THE COMPANY

The General Meeting of Shareholders is the ultimate governing body of the Company. The Board of Directors reports to the General Meeting of Shareholders and performs its functions and powers pursuant to laws, regulations and the Articles of Association. The Board of Supervisors is the supervisory body and reports to the General Meeting of Shareholders. President is appointed by the Board of Directors and assumes the overall responsibility for day-to-day management of the Company under leadership of the Board of Directors. The Company adopts the single legal person system with a head office/branch structure. All branches and sub-branches, as non-independent entities for accounting purposes, report to the Head Office and conduct operations management activities under authorization delegated by the Head Office.

The Company was listed as a whole without any controlling shareholder. The Company is fully independent of shareholders in terms of personnel, assets, accounting, organizations and operations. The Company possesses independent and complete business and the ability of independent operation. The Board of Directors, the Board of Supervisors and internal bodies can operate independently.

III. PERFORMANCE EVALUATION AND INCENTIVE AND DISCIPLINARY MECHANISM FOR SENIOR MANAGEMENT MEMBERS

Senior management members of the Company are hired mainly by external recruitment and internal promotion; senior management members are appointed by the Board of Directors, subject to qualification review by CBRC. The Company conducts leave audit of senior management members. Senior management members are overseen in respect of any violation of laws, regulations or Articles of Association or any misconduct against corporate interests. In addition to an order of correction issued, such violations and misconducts will be reported to the General Meeting of Shareholders or competent authorities of the State where necessary.

During the reporting period, the Remuneration and Assessment Committee assessed duty performance of senior management members in 2008 in accordance with the *Measures for Annual Performance Assessment of Senior Management Members of Hua Xia Bank (Trial)*, including fulfillment of main annual operating indicators of the Company defined by the Board of Directors, performance indicators of senior management members by function/area and directors' review. Senior management assessment adheres to the following principles: ensuring realization of planned objectives under guidance of the development program; combining quantitative and qualitative indicators based on key performance indicators; having regard to team and personal performance of the Senior Management. In addition, specialist committees of the Board of Supervisors evaluated legal and regulatory compliance of senior management members during their performance of duties in 2008. Assessment results of the Remuneration and Assessment Committee and evaluation opinions of the Board of Supervisors constitute an important basis for performance assessment of senior management members and incentive and disciplinary decisions relating to senior management members.

IV. ESTABLISHMENT AND IMPROVEMENT OF INTERNAL CONTROLS

The Company places considerable weight on internal control building. The *Development Program of Hua Xia Bank 2008-2012* published in 2008 sets internal control objectives as building advanced technological and operating systems, a rigorous risk management system, a sound operational management system and a harmonious and innovative corporate culture system. Building advanced technological and operating systems includes reform in the technological management system, creation and improvement of a new operational platform, and establishment of a domestic leading IT-driven operational system; building a rigorous system management system includes improvement of the credit, market, operational and liquidity risk management systems, reengineering of risk management process, and multi-staged and stepwise creation of a vertical, independent and comprehensive risk management system; building a sound operational management system includes improvement of the internal control system, promotion of compliance system development, creation of a bank-wide vertical audit regime, improvement of planning and financial systems, and establishment of a quality and efficient operational management system; building a harmonious and innovative corporate culture system includes creation of a platform for corporate culture building, establishment and improvement of the work systems and mechanisms for corporate culture building, reinforcement of organization and implementation of corporate culture building, and dissemination of the core values of "integrity, discipline and harmony".

In early 2009, the Board of Directors proactively performed its decision-making and strategic management functions in making uniform plans and thorough arrangements relating to the operating plan, risk management strategy, senior management performance, related transaction management and implementation of the five-year program. In the year, the Board of Directors developed the annual operating plan of the Company for 2009 having regard to domestic and overseas economic conditions and the development program of the Company; developed the management strategies for credit, market and operational risks in 2009; reviewed and passed performance assessment of directors and senior management members in 2008; conducted special surveys on related transaction management of the Company since election of the current Board of Directors in line with regulators' focus of attention; conducted special inspections of implementation of the five-year development program by key branches; conducted a survey on cost and expense control in the first half of 2009. These activities played an important role in promoting disciplined operation and steady development of the Company.

In 2009, under the principle that "internal control takes precedence and rule comes first", the Company amended 273 business rules and preliminarily put in place a 3-tiered system consisting of basic frameworks, specific procedures and operations guides, totaling 621 rules, in accordance with regulatory requirements, business development and internal control management needs. Of amended rules, 11 were for financial internal control, over 80 for credit management, over 140 for accounting, over 220 for corporate banking, personal banking and fee-based business, over 30 for compliance, audit and inspection, and over 150 for human resources, executive office and others. The current 3-tiered system covers all operations, products and risk points and further improves internal control management of the Company.

The Company adequately implements internal control systems and reinforces internal controls. Under leadership of the Board of Directors, the Senior Management has met management objectives and the "zero case" risk control objective by fully implementing and practicing the scientific outlook on development, pushing forward the "5218" Program; furthering reforms in the input/output mechanism, marketing mechanism, product R&D and promotion mechanism, compliance mechanism and administrative operation mechanism; reinforcing leadership and staff building and carrying out 18 bank-wide key tasks. Internal control building activities of the Company came in the following five aspects: (1) Internal control environment: the Company continuously improved its corporate governance structure; accelerated institutional building by adding 36 banking outlets and establishing the rural bank; improved the organizational structure by setting up the Notes Center, the SME Credit Department, and the direct marketing team of the Head Office; reinforced human resources management, provided multi-level function-specific training, optimized the incentive and disciplinary mechanism; pressed forward with corporate culture and formed a sound internal control environment. (2) Risk identification and assessment: the Company strengthened research and implementation of credit policy, optimized credit business processes and systems, maintained a rolling risk monitoring mechanism and implemented risky customer management and head office/branch joint warning; developed the market risk management strategy, tightened centralized risk management, and conducted sensitivity measurement, VaR measurement and stress testing using the risk measurement indicators system; developed operational risk management policy, created the library of operational risk points, improved key risk indicators, and started collection of operational risk loss data; improved the liquidity risk management system, tightened gap management, conducted stress testing, reinforced emergency management. All types of risks facing the Company were identified and assessed promptly, accurately and efficiently, with appropriate risk response strategies developed. (3) Internal control measures: the Company clearly assigned responsibilities to functions, positions and bodies at each level, and enhanced separation of incompatible duties; established the multi-level authorization management system, tightened business authorization management; implemented comprehensive budget management and strengthened financial control; promoted business operations, deepened product R&D and performed anti-money laundering obligations; strengthened control of computer system environment, got new core systems live and optimized the E-banking system; established and improved the emergency response mechanism and carried out emergency drills. All operations management activities were covered to effectively prevent various risks. (4) Communication and disclosure: the Company actively established the communication platform, improved the information reporting system, regulated the administrative operation mechanism, held meetings with institutional investors and analysts, visited regulatory authorities and disclosed information adequately. Communication and disclosure were smooth, timely and effective. (5) Supervision and correction: the Company maintained compliance management, pushed forward building of the compliance mechanism, reinforced credit compliance management; conducted function-specific inspections; launched non-compliance crackdown programs, conducted inspection of abnormal staff behaviors, reinforced disciplinary inspection; and promptly corrected and remedied problems detected in conformity to the internal control requirements relating to continuous improvement.

An internal audit function is set up as the supervisory body of internal control and organized into three tiers: the Audit Department, audit divisions and field audit offices. The administrative and business processes are vertically arranged. The Audit Department has five functional units. Under the Audit Department are 6 audit divisions and 22 field audit offices. As at 31 December 2009, the Company had 122 internal auditors, all holding an associate or higher academic degree, accounting for 1% of total staff. In 2009, the Company furthered supervisory audits in a compliance-based and risk-oriented approach. The Company organized five categories of audits, including 12 field audits, 278 leave audits, 150 forced holiday audits, and identified risks relating to key operations, bodies and persons; with an aim to serve development, the Company placed emphasis on major contradictions in operation and development, conducted five surveys on notes and margin trading operations, identified problems in corporate development and restructuring, and enhanced business management; with an aim to strengthen the awareness of internal control and promote compliance with laws and regulations, the Company amended the *Internal Control Assessment Procedures*, carried out annual internal control assessment for 2009 in the forms of self-assessment at branch level, expert assessment at head office level, and combined audit, supervision and assessment. Assessment results were included in the performance assessment system as a basis for authorization management and organizational setup or consolidation. Internal controls have been further embedded into staff routines.

The Company actively corrected deficiencies in internal controls. In 2009, in response to deficiencies relating to credit, market, operational, liquidity and emerging business risks, the Company effectively addressed deficiencies in internal controls by improving the error recurrence prevention mechanism, improving the inference-driven correction mechanism and establishing a long-term improvement mechanism using the dynamic plan-do-check-action (PDCA) cycle. 93% of problems identified in 2009 or left over from previous years have been corrected.

V. ACCOUNTABILITY FOR MAJOR ERRORS IN ANNUAL REPORT DISCLOSURES

The Company has made no major errors in annual report disclosures, thanks to its consistent emphasis on establishment, improvement and management of the information disclosure system. The Company has in place a system of accountability for major errors in annual report disclosures, which provides a reliable assurance for the quality and transparency of annual report disclosures. Information disclosure violations by the Company, directors, supervisors and employees at all levels are subject to the *Information Disclosure Procedures of Hua Xia Bank Co., Limited* and the *Disciplinary Procedures of Hua Xia Bank*.

VI. PERFORMANCE OF CORPORATE SOCIAL RESPONSIBILITY

2009 represented the most difficult year for Chinese economy since the turn of the century. The Company managed to overcome difficulties and firmly performed its social responsibility by creating value with quality financial services and delivering returns to shareholders, customers and the larger society based on integrity and compliance; the Company upheld the scientific outlook on development and accelerated transformation of development modes; and adhered to the principle of prudent operation to seek concurrent growth of quality and benefits.

In 2009, the Company recorded total assets of RMB845,456 million, up RMB100 billion; total profit stood at RMB4,828 million, representing an increase of 20.49% over the previous year; outstanding loans to key investment projects, infrastructures and people's well-being projects of the State grew by 85.21% over the beginning of the year. With rapid business growth, the Company strictly controlled risks and prevented violations, delivering on the objective of "zero case". The new core systems went live successfully to enhance the Company's capability of innovation and risk control and offer opportunities for future business growth and rapid expansion.

The Company adhered to the principle of "service foremost and customer oriented", made uninterrupted efforts to build service and marketing platforms, and increased investments in key investment projects, infrastructures, people's well-being, energy conservation and environmental protection; promoted green credit and restructured credit to control lending to energy- and pollution-intensive industries; launched the "Dragon Boat Program" and built the "SME Banking Service Provider" brand in support of SME growth; improved the national network of outlets, accelerated presence in tier-2 prefectures and cities in developed regions; actively served and provided additional supports to "agriculture, rural areas and farmers" by establishing the rural bank. The Company valued people, endeavored to build a harmonious bank and sought common development with employees.

The Company took on its social responsibility to support community recovery from natural disasters. The Company donated RMB5 million and RMB4 million to the reconstruction of Yinghua Town Central Primary School in Shifang City and the Wudu Central Hospital in Jiangyou City, Sichuan Province, which were flatten by the disastrous Wenchuan Earthquake. The Company donated RMB4 million to Taiwan people whose homes were ruined by Typhoon Morakot. In 2009, the Company made donations totaling RMB12.54 million to China Foundation for Poverty Alleviation, Beijing Charity Association, China Women's Development Foundation and other charities.

The Company provided financial supports to Pan County, Liuzhi Special Zone and Qinglong County in Guizhou Province for eight consecutive years in support of local economic development. In 2009, the Company was honored as the "Bank with Greatest Growth Potential" and the "Best Commercial Bank in China – SME Services".

SECTION VII
SUMMARY OF GENERAL MEETINGS

SUMMARY OF GENERAL MEETINGS

The Company held one annual general meeting during the reporting period, particularized as follows:

The Annual General Meeting for 2008 of the Company was held on 11 May 2009, with resolutions published on the *Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 12 May 2009.

SECTION VIII
REPORT OF THE BOARD OF DIRECTORS

I. MANAGEMENT DISCUSSION AND ANALYSIS

i. Review of Operation during the Reporting Period

Principal activities of the Company include: deposits-taking, granting loans on a short, medium and long term basis, domestic and international settlement; bill acceptance and discounting; issuing financial bonds; agency issuing, honoring and underwriting of government bonds; trading in government bonds and financial bonds; inter-bank lending/borrowing, trading in foreign exchange on its own behalf and as an agent; bank card services; provision of letter of credit and guarantee services; agency payment and collection, safety deposit service, foreign exchange sale and purchase; bancassurance agency service; and other activities as approved by CBRC.

1. Overall Operation of the Company

In 2009, the Company achieved steady growth of operation through adequately implementing the national macro control policy and regulatory requirements, adhering to the objectives and requirements set out in the development program under the scientific outlook on development, effectively carrying out arrangements made at the 2009 annual work meeting, enhancing planning and restructuring, shifting development modes and continuously improving asset quality and risk tolerance for coordinated development between quality, profit, speed and structure. The Company was recognized by major media and research institutions as the "Best Wealth Management Bank 2009" and the "Bank with the Greatest Growth Potential 2009".

(1) Sound operation

As at the end of 2009, total assets of the Company reached RMB845,456 million, up RMB113,819 million or 15.56% over the end of the previous year and representing 105.68% of the annual objective; balance of deposits stood at RMB581,678 million, up RMB96,328 million or 19.85% over the end of the previous year; outstanding loans were RMB430,226 million, up RMB74,748 million or 21.03% over the end of the previous year; NPL ratio was 1.50%, down 0.32 percentage point from the end of the previous year; total profit for 2009 amounted to RMB4,828 million, up RMB821 million or 20.49% over the previous year; net profit was RMB3,760 million, up RMB689 million or 22.45% over the previous year; capital adequacy ratio reached 10.20%.

(2) Strategic management reinforced to ensure steady and rapid development throughout the Bank

The Company comprehensively implemented strategic management measures, endeavored to deliver on development strategy and business objectives, pushed for faster development of branches in priority regions and areas; strengthened capital management, reasonably controlled assets at risk, optimized structure of assets at risk and increased utility efficiency of assets at risk having regard to changes in market conditions and regulatory requirements and business developments of the Company; accelerated institutional setup to extend the reach of services; and enhanced investor relations management, boosted market understanding of and confidence in the Company.

(3) Marketing launched to promote bank-wide business development

The Company launched marketing in response to changes in business environment, enhanced marketing efforts, focused marketing on customer development and services under the principle of "customer-driven bank development", kept itself close to the market and customers, endeavored to satisfy service needs of customers, provided customers with value-added services, increased customer contributions; and boosted customer relations management to increase customer loyalty. Key products and brands of the Company have been well recognized in the market to show brand premiums; breakthroughs have been made in marketing platform building, service capacity further improved; business structure was optimized to bring down the cost of funds.

(4) Credit risk management enhanced to control credit risk effectively

The Company placed emphasis on research and implementation of credit policy, created a credit policy management process and a research mechanism of the lead and assisting regions for credit business, and progressively put in place such operating mechanisms as for industry monitoring, industry analysis, industry policy, management policy and limit control. The ability to implement credit policy was enhanced continuously, credit restructuring carried out effectively. A regular and quantitative risk examination and risky customer base management mechanism was created, the risk warning and response capability boosted.

(5) Internal management intensified to improve operations management

The Company pressed forward with the input/output mechanism building, implemented the plan for input/output mechanism building in a stepwise manner, boosted input/output evaluation, and optimized allocation of institutional, human, financial and incentive resources; promoted the product R&D dissemination mechanism, strived to build a spectrum of product and service brands; pushed forward the compliance mechanism building, enhanced internal control management, fulfilled the "zero case" objective and forcefully promoted management enhancement; pushed forward the administrative operation mechanism building to increase quality and efficiency of work; created an up-to-date operational platform and successfully commissioned new core systems.

2. Composition of Operating Income and Profit of the Company

During the reporting period, the Company recorded operating income of RMB17,129,635,000 and operating profit of RMB4,811,265,000.

(1) By type of business

(Unit: RMB1,000)

Type of business	Operating income
Loans	12,689,152
Inter-bank lending/borrowing	80,816
Due from central banks and other banks	-1,386,406
Purchases under resale agreements and sales under repurchase agreements	1,701,869
Bonds investment	2,817,317
Fee and commission	1,024,435
Others	202,452
Total	17,129,635

(2) By region

(Unit: RMB1,000)

	Operating income	Operating profit
North China and Northeastern China	6,225,904	444,790
East China	5,440,067	2,258,439
Central China and South China	2,857,200	1,091,470
Western China	2,606,464	1,016,566
Total	17,129,635	4,811,265

(3) Comparison of principal activities and their structure during the reporting period with that of the previous reporting period

The Company carries out business activities within the scope of business approved by PBOC and CBRC. Main sources of income of the Company are deposit taking and lending, bonds investment, inter-bank lending/borrowing, settlement and agency services. No other business with a significant impact on profit occurred during the reporting period.

3. Financial Position and Operating Results of the Company

(1) Changes in main financial indicators and reasons

(Unit: RMB1,000)

Main financial indicators	As at the end of the reporting period	Increase/decrease over the end of the previous year (%)	Main reasons
Total assets	845,456,432	15.56	Increase of assets based businesses such as loans
Total liabilities	815,222,247	15.76	Increase of liabilities based businesses such as deposits
Shareholders' equity	30,234,185	10.26	Increase of net profit
Main financial indicators	**Reporting period**	**Year-on-year increase/ decrease (%)**	**Main reasons**
Operating income	17,129,635	-2.74	Expansion of business size and decrease of interest spread
Operating profit	4,811,265	19.27	Expansion of business size and improvement of profitability of assets
Net profit	3,760,227	22.45	Expansion of business size and improvement of profitability of assets

(2) Items with over 30% changes in the comparative accounting statements

(Unit: RMB1,000)

Main accounting items	As at the end of the reporting period	Increase/decrease (%)	Main reasons
Due from banks and other financial institutions	9,473,615	40.47	Increased due from banks and other financial institutions
Precious metals	533	-94.39	Shrinking physical gold business
Placements with banks and other financial institutions	22,889,762	41.64	Increased placements with banks and other financial institutions
Trading financial assets	765,724	-84.11	Decreased trading financial assets
Derivative financial assets	24,216	-94.54	Decreased derivative financial asset business
Reverse repurchase agreements	209,952,004	55.13	Increased reverse purchases
Available-for-sale financial assets	11,640,738	-35.14	Decreased available-for-sale financial assets
Derivative financial liabilities	7,837	-98.29	Decreased derivative financial asset business
Taxes payable	1,988,601	41.70	Increased taxes payable
Deferred income tax liabilities	8,563	-96.14	Decreased deferred income tax liabilities
Retained profit	2,115,135	120.03	Increased net profit
Investment income	101,297	334.05	Increased price spread income
Income from changes in fair value	-43,869	-164.84	Changes in fair value
Impairment losses on assets	3,377,016	-31.00	Decreased provisions for impairment losses
Other operating costs	6,090	-30.32	Decreased other operating costs
Non-operating income	52,017	123.77	Increased non-operating income

4. Analysis on Cash Flows of the Company

In 2009, net flow of cash and cash equivalents of the Company was RMB33,291 million of net cash outflows. Specifically, the net cash outflow from operating activities was RMB40,071 million, mainly due to expanded investment in higher-yield assets in line with the asset and liability realignment plan with assured liquidity and security. The net cash inflow from investment activities was RMB8,559 million, mainly due to recovery of bond investment matured. The net cash outflow from financing activities was RMB1,779 million, mainly due to profit distribution and payment of interest on bonds outstanding.

5. Discussion and Analysis on Non-financial Information

In the face of the unusual international financial crisis and the difficult yet volatile market environment, the Company has continuously pressed ahead with the marketing mechanism to make marketing better organized and more systematic and coordinated.

The marketing mechanism was further built to increase organizational drive for marketing. The Company successively implemented plans for marketing mechanisms of corporate banking, personal banking and international banking, further improved business processes, job responsibilities, organizational structure and staffing in the marketing line; streamlined and enhanced marketing functions and setup. The Direct Marketing Team and the Notes Center were created at the Head Office; 6 branches were approved to set up wealth management centers; the SME Credit Department was established, with 9 divisions opened in Beijing, Jiangsu, Zhejiang and Hubei, 5 of which have started operation; communication and coordination between credit risk management departments and marketing departments at head office and branch levels were enhanced to preliminarily manifest effects of joint marketing.

The Company actively built the product R&D and promotion mechanism. The Company set up the Product Management Committee at the Head Office, improved the basic framework for product R&D management, and optimized product development, approval and promotion processes. Centralized promotion and advertising of products were boosted to generate effective positive public response. "SME Banking Service Provider" brand was built through the "Dragon Boat Program"; the business travel card, Huiying No. 19, Chuangying No. 10, credit card and international banking won many awards and honors; the Company completed the first electronic banker's acceptance bill endorsement in China.

6. Analysis on Operation and Performance of Major Holding and Equity Participation Companies

As at 31 December 2009, the Company held a 2.13% stake in China UnionPay Co. Ltd., representing RMB81.25 million. China UnionPay has grown fast since its founding in March 2002.

In March 2008, the restructured VISA International went public on American Stock Exchange. As at 31 December 2009, the Company held 1,999 shares in VISA International. According to decisions of the board of directors of VISA International, shares held by the Company can not be sold within three years following VISA International restructuring and listing.

7. Internal Controls and Items Relating to Fair Value Measurement

In 2009, the Company measured trading financial assets and available-for-sale financial assets at fair value, while the fair value was determined by means of quotation, transaction price or yield curve. The yield curve published by China Government Securities Depository Trust & Clearing Co., Ltd. was used as the RMB-denominated bond yield curve, the yield curve provided by the Bloomberg system adopted as foreign currency-denominated bond yield curve.

Items Relating to Fair Value Measurement

Unit[1]: RMB10,000

Item (1)	At beginning of period (2)	Gain (loss) from changes in fair value during the reporting period (3)	Accumulative changes in fair value recognized in equity (4)	Impairment provisions made during the reporting period (5)	At end of period (6)
Financial Assets					
Of which: 1. Financial assets designated at fair value through profit or loss[2]	527,031.50	-49,439.31			79,047.26
Of which: Derivative financial assets	44,313.07	-41,891.51			2,421.56
2. Available-for-sale financial assets	1,794,679.65		751.62	-2,853.79	1,164,073.85
Sub-total of financial assets	2,321,711.15	-49,439.31	751.62	-2,853.79	1,243,121.11
Financial liabilities	45,837.29	45,052.37			833.28
Investment properties					
Others[3]					
Total	2,321,711.15	-49,439.31	751.62	-2,853.79	1,243,121.11

Note: 1. All amounts are presented in RMB. 2. Including derivative financial assets. 3. Significant items in the "Others" may be separately presented in the table. 4. Accumulative changes in fair value recognized in equity. 5. There is no necessary articulation in the table. 6. "Total" excludes "financial liabilities".

8. Special Purpose Entities Controlled by the Company

Not applicable.

ii. Outlook for Future Development of the Company

1. Changes in Future Business Environment

(1) Domestic and international conditions are complicated and riddled with uncertainties. Global economic recovery is not on a firm footing and effects of the international financial crisis are lingering, posing a higher pressure of global challenges. The driving force for economic upturn is not adequate, coupled with pronounced structural contradictions. Amid China's stabilizing economic recovery, quicker economic restructuring, rapid development of capital market and regulators' call for banks to implement differentiated credit policies and interest rate policies, the risk management capability, loan pricing capacity and future profit making modes of commercial banks are tested concerning how to cope with such difficulties as the tighter market liquidity as compared with 2009 and stronger capital restraint as well as the pressures from volatility in economic recovery and overcapacity of some industries on asset quality.

(2) The monetary policy is fine-tuned to a larger magnitude and in a larger frequency while kept moderately loose. The Central Economic Work Conference in December 2009 resolved to continue the proactive fiscal policy and moderately loose monetary policy to ensure continuity and stability of macro economic policies, increase responsiveness and flexibility of policies to reflect new circumstances and developments, and in particular improve the quality and benefits of economic growth. Inflation has emerged and gone beyond expectation in 2010, with more signs of liquidity contraction seen. PBOC determined to raise the RMB deposit reserve ratio by 0.5 percentage point on January 18, the first rise since June 2008. Though the move poses limited liquidity-tightening effects on commercial banks, it has a far-reaching impact on the future direction of monetary policy, even signifying the reversal of monetary policy. As an array of macro control measures are announced, the future pressure of liquidity management inflicted on commercial banks will mount.

(3) Supervision of capital restraint effectiveness will be tightened. As commercial banks traditionally make profit from interest spread, the narrowing interest spread forces commercial banks to expand credit size to retain profit level. However, credit surge erodes capital of commercial banks and brings down their capital adequately ratio quickly. The expanding capital gap, restrictions on capital replenishment and tightening supervision of capital restraint effectiveness combine to pose a demand for stronger capital management capability of commercial banks.

(4) Credit restructuring and prevention and control of asset risks will become the theme of development in the industry. Potential risks posed by the credit surge in 2009 are not ignorable. In particular, its deviation from the real economy and reasonableness of credit structure will, if lasting too long, add to the risks of economic volatility and NPL rebounding in the future. Therefore, adjusting the maturity structure of assets and liabilities and the customer structure, exiting from some industries and shifting to the real economy and SMEs will become priorities of commercial banks' credit restructuring. However, it will face a dilemma that commercial banks will exit from or enter certain projects and industries at the same time, resulting in the risk of exit sequence.

2. Operating Plan and Main Measures to be Taken in the Coming Year

(1) Business objectives for 2010

– Total assets to reach RMB1 trillion or higher
– NPL ratio to be kept below 1.50% at the end of the year.

(2) Main measures to be taken in the coming year

The Company will fully implement the resolutions of the Sixteenth National Congress of the CPC, the Fourth Plenary Session of the Seventeenth CPC Central Committee and the Central Economic Work Conference, carry forward the scientific outlook on development, adhere to objectives and requirements set out in the development program, work hard with firm confidence, continue to further the building of mechanisms, optimize business structure, shift development modes, continuously improve overall competitiveness, meet the core objectives of "restructuring, controlling risks, generating profit and promoting development", seek sound and rapid development, and unswervingly move forward toward a modern medium-sized joint-stock commercial bank. The Company will focus efforts on the following aspects of work:

① Enhance strategic management, promote the scientific approach to development

The Company will enhance strategic management to make development better planned and forward-looking; adequately implement plans, establish a mechanism for research, organization, promotion, implementation, assessment and realignment of the bank-wide strategy, properly carry out monitoring, assessment and dynamic recalibration of plans; strengthen forward-looking research of market conditions and policy changes, improve responsiveness to changes; enhance capital management and create sustainable capital replenishment mechanisms, channels and measures in line with the development plan for the coming three years, laying the foundation for stable and rapid development; complete issuance of subordinated debts having regard to market circumstances, press forward with additional issuance, ensure timely replenishment of capital and provide capital support for business development; actively research and move forward internal transfer pricing management with focus placed on the risk cost principle, and continuously improve the incentive and restrictive mechanism.

② Boost the ability to prevent and control risks

The Company will further improve the framework, operating system and mechanism of credit risk management, adhere to the principles of "separating lending from approval, optimizing new loans and adjusting existing loans", and guide credit business to reasonable growth, optimal structure and better asset quality; strengthen disposal of troubled loans, focus work on upgrading troubled loans to normal ones; adequately implement the CBRC requirements set out in the "Three Measures and One Guideline", actively prevent the six major risks arising from industry restructuring (i.e. credit risk, fraud risk, credit risk in the government financing platform, credit risk in real estate industry, risk of personal loans flowing to capital markets, and liquidity risk); gradually improve risk policy and criteria, effectively enhance management of on-balance-sheet and off-balance-sheet risks, cross-industry risk, reputational risk and legal risk, and cover all risks.

③ Deepen the marketing mechanism building, increase competitiveness

Under the theme of deepened marketing mechanism, the Company will transform development modes to promote healthy development of marketing through improving product competitiveness and customer service capability, with the focus placed on furthering realignment of operations; create the key customer development and service platform at head office, branch and sub-branch levels, which interact to render satisfactory marketing and services towards key customers; implement and further the product R&D and promotion mechanism, improve product R&D capability; strengthen efforts to build channels for completeness and diversity of services and functions.

④ Strengthen comprehensive control, optimize business structure

The Company will strengthen comprehensive control, improve the ability to forecast economic developments, economic policy and regulatory policy, increase farsightedness and effectiveness of comprehensive control; continue to increase the number and portion of medium and big-sized customers, increase the percentage of non-loan liabilities; develop fee-based business in various forms, diversify income streams from fee-based business, and focus efforts on developing higher-yield fee-based business; improve risk pricing capability and implement differentiated credit and interest rate policies; diversify operational channels of funds, strengthen coordinated management of fund use; tap into internal potential, take deeper the input/output mechanism building, introduce refined management featuring quantitative analysis and accounting in details, increase the efficiency of using capital, funds, expenses and human resources.

3. Capital demanded by future development strategy and its operational plan and sources

Capital adequacy is a rigid regulatory requirement in the regulation of banking industry and, what's more, an inherent demand of continuous and healthy development of commercial banks. To meet basic objectives of capital management, the Company will establish a sound capital replenishment system to ensure capital demand is met through: (1) internal buildup of capital strength; (2) capital financing through subordinated debts and additional share offering; and (3) increasing capital using other replenishment instruments permitted by the State.

4. All risk factors that may adversely affect future development strategy and business objectives of the Company

2010 may be the most complicated year for China, fraught with uncertainties and placing the Company in a more complicated situation. Frangible recovery of global economy, lingering international financial crisis and mounting pressure of global challenges mean presence of regional and industry risks; expanding credit assets in the previous year may add to the pressure of credit risk control; volatility of asset prices results in high levels of market risk, and preventing operational risk remains the focus of fraud control; the pressure of capital restraint remains, and the operations management becomes increasingly more difficult for banks.

II. BANKING DATA

i. Major Financial and Accounting Data of Commercial Bank in Previous Three Years

(Unit: RMB1,000)

Item	2009		2008	2007
	PRC GAAP	IFRSs	PRC GAAP	PRC GAAP
Total assets	845,456,432	845,594,709	731,637,186	592,338,274
Total liabilities	815,222,247	815,213,686	704,215,830	579,282,647
Total deposits	581,678,388	581,678,388	485,349,577	438,782,259
Of which: Enterprise demand deposits	227,019,393	227,019,393	179,633,066	173,640,863
Enterprise time deposits	172,055,771	172,055,771	144,485,251	150,443,321
Savings demand deposits	26,913,207	26,913,207	19,701,769	19,057,192
Savings time deposits	56,621,312	56,621,312	43,916,985	35,233,557
Other deposits	99,068,705	99,068,705	97,612,506	60,407,326
Total loans	430,225,584	430,225,584	355,477,838	306,077,670
Of which: Pass	423,768,319	423,768,319	348,990,658	299,188,163
NPLs	6,457,265	6,457,265	6,487,180	6,889,507
Placements from banks and other financial institutions	6,121,271	6,121,271	7,688,164	–
Allowance for loan losses	10,773,337	10,773,337	9,809,864	7,528,317

Capital Composition and its Changes:

(Unit: RMB100 millions)

Item	2009	2008	2007
Net capital base	440.69	403.46	242.04
Of which: Core capital base	295.53	264.16	125.94
Supplementary capital base	145.16	139.30	116.10
Risk weighted assets, net	4,318.69	3,540.01	2,926.51
Capital adequacy ratio (%)	10.20	11.40	8.27
Core capital adequacy ratio (%)	6.84	7.46	4.30

ii. Major Financial Indicators of Commercial Bank in Previous Three Years

Major indicator (%)		Standard value	2009		2008		2007	
			Period end	Average	Period end	Average	Period end	Average
Return on assets			0.48	0.44	0.46	0.54	0.41	0.41
Return on capital			12.44	11.52	11.20	20.79	16.09	15.57
Capital adequacy ratio		≥8%	10.20	10.59	11.40	9.03	8.27	8.47
Core capital adequacy ratio		≥4%	6.84	7.02	7.46	5.33	4.30	4.48
NPL ratio		≤15%	1.50	1.61	1.82	2.04	2.25	2.50
Loan-to-deposit ratio	RMB	≤75%	71.28	72.74	71.64	71.77	64.62	74.74
	Foreign currency	≤85%	51.47	43.28	29.23	55.62	54.17	55.00
	Conversion in RMB	≤75%	70.97	72.30	70.44	71.41	64.36	74.17
Asset liquidity ratio	RMB	≥25%	28.68	38.60	52.90	45.32	48.15	45.83
	Foreign currency	≥25%	97.61	112.66	67.87	60.55	80.83	77.19
Percentage of loans to single largest customer		≤10%	4.79	4.74	3.72	5.01	5.58	5.87
Percentage of loans to top 10 customers		≤50%	33.99	31.20	27.48	36.56	41.70	40.07
Provision coverage ratio			166.84	156.64	151.22	125.77	109.27	94.94
Cost-to-income ratio			44.88	43.97	41.41	39.21	40.39	40.35

Note: NPL ratio is categorized as the five-tier classification. NPL ratio = (sub-standard loans + doubtful loans + loss loans) ÷ balances of various loans × 100%.

Statement of migration ratio data:

Item (%)	2009	2008	2007
Loan migration ratio: Pass	3.85	5.92	12.02
Loan migration ratio: Special mention	21.04	14.41	17.06
Loan migration ratio: Sub-standard	28.14	62.61	30.54
Loan migration ratio: Doubtful	32.49	41.08	15.45

Note: Loan migration ratio: pass = Downward migrating amount of pass loans at the beginning of the period/(balance of pass loans at the beginning of the period – decreased amount of pass loans during the period) × 100%;

Loan migration ratio: special mention = Downward migrating amount of special mention loans at the beginning of the period/(balance of special mention loans at the beginning of the period – decreased amount of special mention loans during the period) × 100%;

Loan migration ratio: sub-standard = Downward migrating amount of sub-standard loans at the beginning of the period/(balance of sub-standard loans at the beginning of the period – decreased amount of sub-standard loans during the period) × 100%; and

Loan migration ratio: doubtful = Downward migrating amount of doubtful loans at the beginning of the period/(balance of doubtful loans at the beginning of the period – decreased amount of doubtful loans during the period) × 100%.

iii. Hierarchical Management, Number and Regional Distribution of Branches and Sub-branches at Different Levels during the Reporting Period

1. Overview of hierarchical management

The Company is based on the economically developed cities and radiating to the whole country. It conducts the institution planning and setup, daily operation and internal management in accordance with the three-level organizational and management system including the Head Office, branches and sub-branches.

As at 31 December 2009, the Company set up 28 branches, 3 inter-city sub-branches and 1 tier-2 branch in such cities as Beijing, Nanjing, Hangzhou, Shanghai, Ji'nan, Kunming, Shenzhen, Shenyang, Guangzhou, Wuhan, Chongqing, Chengdu, Xi'an, Urumqi, Dalian, Taiyuan, Qingdao, Wenzhou, Shijiazhuang, Fuzhou, Hohhot, Tianjin, Ningbo, Shaoxing, Nanning, Changzhou, Suzhou, Wuxi, Yantai, Liaocheng, Yuxi and Zhenjiang. The number of operating institutions reached 349. 36 institutions were newly set up in 2009.

On 10 August and 6 November 2009, Changsha Branch and Hefei Branch of the Company were approved by CBRC and are under establishment.

2. Basic information on institutions

Institution name	Business address	Number of institutions	Number of employees	Asset size (Unit: RMB10,000)
Head Office	No. 22 Jianguomen Inner St, Dongcheng District, Beijing	1039	18,188,958	
Beijing Branch	No. 11 Finance Street, Xicheng District, Beijing	42	1378	10,853,745
Nanjing Branch	No. 81 Zhongshan Road, Nanjing	18	535	3,591,569
Hangzhou Branch	No. 73 Qingchun Road, Hangzhou	22	714	5,586,064
Shanghai Branch	No. 256 Pudong South Rd, Shanghai	22	626	5,014,927

Ji'nan Branch	No. 138 Wei Road 2, Ji'nan	26	752	3,213,209
Kunming Branch	No. 98 Weiyuan Road, Kunming	19	527	1,845,069
Shenzhen Branch	L1-4, Podium of Nanguangjiejia Mansion, No. 3037 Shennan Middle Rd, Futian District, Shenzhen	16	444	2,423,910
Shenyang Branch	No.51 Qingnian Street, Shenhe District, Shenyang	10	364	2,010,546
Guangzhou Branch	No. 113 Siyouxinma Road, Wuyang New City Plaza, Yuexiu District, Guangzhou	10	392	3,250,467
Wuhan Branch	No. 786 Minzhu Road, Wuchang District, Wuhan	15	472	3,506,149
Chongqing Branch	No. 6 Shangqingsi Road, Yuzhong District, Chongqing	13	425	4,126,777
Chengdu Branch	8/F, Tower A, Air China Century Center, No.1 Hangkong Road, Wuhou District, Chengdu	11	344	1,387,157
Xi'an Branch	No. 111 Chang'an North Rd, Xi'an	8	267	1,445,929
Urumqi Branch	No. 15 Dongfeng Road, Urumqi	5	196	633,088
Dalian Branch	No. 25 Tongxing Street, Zhongshan District, Dalian	10	313	2,469,524
Qingdao Branch	A L1, No. 5 Donghai West Rd, Shinan District, Qingdao	13	400	1,705,528
Taiyuan Branch	No. 113 Yingze Street, Taiyuan	11	405	2,977,838
Wenzhou Branch	Shenli Mansion, Chezhan Avenue, Wenzhou	11	319	1,068,483
Fuzhou Branch	No. 92 Dongda Road, Gulou District, Fuzhou	7	237	823,086
Hohhot Branch	Capital Plaza, No. 1 Zhongshan West Rd, Huimin District, Hohhot	5	203	987,213
Tianjin Branch	Tower E, Huanbohai Development Center, No. 9 Binshuidaozeng, Hexi District, Tianjin	10	311	1,023,701
Shijiazhuang Branch	No. 48 Zhongshan West Rd, Shixia District, Shijiazhuang	12	359	1,583,273
Ningbo Branch	No. 787 Baizhang East Rd, Jiangdong District, Ningbo	3	161	741,357
Shaoxing Branch	No. 260 Yan'an Road, Shaoxing	3	140	449,903
Nanning Branch	Nanfeng Mansion, No. 85 Minzu Avenue, Nanning	2	104	483,016
Changzhou Branch	No. 162, Heping North Rd, Changzhou	2	126	366,060
Suzhou Branch	No. 1296 Ganjiang West Rd, Suzhou	11	351	1,321,104
Wuxi Branch	No. 105 Xinsheng Road, Wuxi	11	330	1,329,995
Zhenjiang Branch	No. 288 Jiefang Rd, Zhenjiang	1	67	137,998
Total		349	12301	84,545,643

Note: Zhenjiang Branch is a tier-2 branch.

iv. Quality of Loan Assets during the Reporting Period

1. Quality of loan assets during the reporting period:

(Unit: RMB1,000)

Five-tier classification	Amount	Percentage (%)	Increase/ (decrease) compared to the same period of previous year (%)
Pass loans	411,226,152	95.58	24.94
Special mention loans	12,542,167	2.92	-36.84
Sub-standard loans	3,387,550	0.79	72.75
Doubtful loans	2,059,427	0.48	-36.83
Loss loans	1,010,288	0.23	-20.19
Total	430,225,584	100.00	21.03

Under the system of five-tier classification, the non-performing loans of the Company are classified into sub-standard, doubtful and loss loans.

In 2009, the Company earnestly implemented the State's macro-economic and financial policies, proactively carried forward the long-acting mechanism construction of credit risk management, reinforced the guidance on the orientation of credit policies, optimized the credit assets structure, improved the compliance management of credit extension and risk warning system, and stepped up the recovery and disposal of defaulted loans, thus the assets quality was steadily enhanced. As at the end of 2009, the balance of non-performing loans was RMB6.457 billion, representing a year-on-year decrease of RMB30 million; the NPL ratio stood at 1.50%, down 0.32 percentage point year-on-year.

2. Restructured loans and overdue loans:

(Unit: RMB1,000)

Category	Balance at the beginning of the period	Balance at the end of the period	Percentage (%)
Restructured loans	684,518	330,851	0.08
Overdue loans	6,452,457	6,199,207	1.44

During the reporting period, the Company further improved the post-loan management, established rolling risk screening and warning synergetic response mechanism to both strengthen the disposal of existing troubled loans and effectively control the growth of new troubled loans, and the overdue loans and restructured loans were continuously improved. As at the end of the reporting period, the balance of restructured loans amounted to RMB331 million and decreased by RMB354 million from the beginning of the year, accounting for 0.08% of total loans, 0.11 percentage point lower than the beginning of the year; the balance of overdue loans was RMB6,199 million and decreased by RMB253 million from the beginning of the year, accounting for 1.44% of total loans, 0.38 percentage point lower than the beginning of the year.

v. Charge and Write-off of Allowance for Impairment Losses on Loans

(Unit: RMB1,000)

	PRC GAAP	IFRS
Balance at the beginning of the period	9,809,864	9,809,864
Charge during the reporting period	3,329,899	3,329,899
Interest reverse of impaired loans	214,614	214,614
Recovery during the reporting period	32,779	32,779
Write-off during the reporting period	1,986,958	1,986,958
Transfer-out during the reporting period	197,633	197,633
Balance at the end of the period	10,773,337	10,773,337

Methods used in charge of allowance for impairment losses on loans:

The Company assesses the impairment losses on all loans at the balance sheet date based on two methods: the individual assessment and portfolio assessment.

As to the single loan with a large amount, the Company applied the individual assessment method to test the impairment. If an objective evidence could indicate the loan had impairment loss, the loss amount shall be measured at the difference between the book value of the loan and the discounted present value of estimated future cash flows and allowance for impairment loss on loans would be set aside and recognized in the loss of the period; the solvency of the borrower, reasonable value of the collateral, compensatory ability of the guarantor and other factors shall be fully considered in the impairment testing.

The single loan with a small amount and unimpaired loan tested by the individual assessment shall be included in the loan portfolio with similar characteristics. Their impairment losses shall be assessed by portfolio and corresponding allowance for the impairment losses shall be recognized in the profit or loss.

vi. Interest Receivable

(Unit: RMB1,000)

Item	Balance at the beginning of the period	Increase during the period	Received during the period	Balance at the end of the period
Interest receivable	1,833,481	37,810,334	38,069,491	1,574,324

Allowance for the bad debts of interest receivable:

In 2009, as the Company inspected the interest receivable and there was no impairment of it, the allowance for the bad debts was not set aside.

Writing-off procedures and policy of bad debts:

As for the items in line with the conditions of writing-off, the Company adopted the procedures of declaration by the branches and review and approval by the Head Office: the related departments of branches organized the declaration and review for the bad debts writing-off, submitted to the assets & liabilities management committee of the branches for review and approval and then reported to the Head Office; after reviewed by the related departments of the Head Office and approved by the Assets & Liabilities Management Committee, the items were written off.

In the process of bad debts writing-off, the Company abided by the principle of strict writing-off conditions, providing definite evidence, seriously investigating the responsibilities, reporting, reviewing and approving one by one and level by level, keeping confidential and "maintaining filing and recourse after writing-off". After the bad debts were written off, the management responsibility was strictly put into place and diversified methods were adopted in the continuing recourse.

vii. Income Structure

(Unit: RMB1,000)

Business category	Amount	Percentage (%)	Increase/decrease compared to the same period of previous year (%)
Interest income on loans	20,970,069	61.48	-11.86
Interest income on placements with banks	271,727	0.80	-13.75
Interest income on due from central banks	1,099,705	3.22	-14.42
Interest income on due from banks	20,226	0.06	-59.23
Interest income on financial investments	2,721,755	7.98	-9.06
Fee income	1,303,901	3.82	22.61
Others	7,720,999	22.64	-16.66
Total	34,108,382	100.00	-12.01

viii. Credit Extension

1. Credit distribution by industry

As at the end of the reporting period, the top ten industries of corporate loans of the Company were as follows:

(Unit: RMB1,000)

Industry distribution	At the end of 2009		At the beginning of 2009	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Manufacturing	119,443,612	27.75	100,138,091	28.18
Leasing and commercial services	59,525,691	13.83	23,956,310	6.74
Wholesale and retail	51,608,444	11.99	50,514,225	14.21
Real estate	33,545,222	7.80	23,123,783	6.50
Transportation, storage and postal services	30,021,388	6.98	20,525,034	5.77
Construction	24,393,322	5.67	24,810,795	6.98
Production and supply of electronic power, gas and water	19,794,009	4.60	20,703,173	5.82
Mining	13,455,600	3.13	9,465,550	2.66
Water, environment and public utility management	6,400,604	1.49	4,038,044	1.14
Lodging and catering services	5,141,599	1.20	4,096,713	1.15

During the reporting period, the Company intensified the loan support for such industries as transportation and urban infrastructure construction closely relating to boosting domestic demand, ensured the credit guarantee for the real economy, reinforced the green credit management and strengthened the risk control on highly polluted, highly energy-consuming and over-capacity sectors to continuously optimize the industry structure of loans.

2. Credit distribution by region

(Unit: RMB1,000)

Regional distribution	At the end of 2009		At the beginning of 2009	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Northern and Northeastern China	155,495,626	36.14	128,883,332	36.25
Eastern China	149,399,356	34.73	118,228,496	33.26
Southern and Central China	64,896,267	15.08	58,720,194	16.52
Western China	60,434,335	14.05	49,645,816	13.97
Total	430,225,584	100.00	355,477,838	100.00

The loans of the Company mainly concentrated upon the Eastern and Northern China. First, in recent years, the Company focused on the business development of branches in economically developed regions and achieved apparent results. Second, the Company set up branches in these regions in earlier time and had relatively larger percentage, according with the law of banking development. Thirdly, the economic aggregate of these regions was large and provided favorable environments and opportunities for rapid business development of the Company.

3. Particulars of top 10 loan customers

(Unit: RMB1,000)

	Balance	Percentage (%)
Top 10 loan customers	14,978,876	3.48

During the reporting period, the Company strictly controlled the loan concentration risk. The total balance of top 10 loan customers amounted to RMB14,979 million, accounting for 3.48% of loan balance at the end of the period and 33.99% of net capital respectively, which was controlled within the regulatory requirement.

4. Classification of loan guarantee methods and percentages

(Unit: RMB1,000)

Guarantee method	2009		2008	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Unsecured loans	71,725,179	16.67	50,952,332	14.33
Guaranteed loans	145,367,786	33.79	116,701,835	32.83
Collateral loans	213,132,619	49.54	187,823,671	52.84
– Mortgage loans	164,668,702	38.28	131,484,151	36.99
– Pledge loans	48,463,917	11.26	56,339,520	15.85
Total	430,225,584	100.00	355,477,838	100.00

The Company attached importance to taking the loan collateral as an important tool for mitigating customer credit risk. As at the end of reporting period, the total corporate mortgage and pledge loans of the Company accounted for 49.54%, down 3.30 percentage points compared to the beginning of the period, mainly due to the financial crisis, tight corporate funds and the decreased percentage of loans issued by the way of deposit and security deposits; the percentage of corporate unsecured loans increased by 2.34 percentage points compared to the beginning of the period, mainly due to the increase in loans granted to quality customers with high credit rating by the Company.

ix. Assets for Debt Repayment

(Unit: RMB10,000)

Category	At the end of the period		At the beginning of the period	
	Amount	Allowance for impairment losses	Amount	Allowance for impairment losses
Real estate	67,566.11	27,356.40	74,588.73	25,025.04
Land use rights	–	–	–	–
Share rights	5,560.56	4,285.28	6,641.69	4,318.86
Automobiles	–	–	–	–
Others	3,781.24	3,048.00	3,779.95	2,566.56
Total	76,907.91	34,689.68	85,010.37	31,910.46

As at the end of 2009, the book balance of assets for debt repayment was RMB769,079.1 thousand, of which, real estate amounted to RMB675,661.1 thousand, accounting for 87.85% of total repossessed assets; share rights stood at RMB55,605.6 thousand, accounting for 7.23% of total repossessed assets; and others was RMB37,812.4 thousand, accounting for 4.92% of total repossessed assets.

x. Major Deposit and Loan Structures

1. Major deposits and interest rates

(Unit: RMB10,000, %)

Item	Average balance	Average interest rate
Corporate demand deposits	18,314,411	0.63
Corporate time deposits	26,910,349	2.13
Savings demand deposits	2,054,092	0.37
Savings time deposits	5,323,793	2.46
Total	52,602,645	1.57

2. Major loans and interest rates

(Unit: RMB10,000, %)

Item	Average balance	Average interest rate
Short-term loans within one year	27,142,777	4.66
Medium and long-term loans	15,959,375	5.07
Total	43,102,152	4.82

Note: Short-term loans within one year include discounted bills.

xi. Financial Bonds Held

(Unit: RMB10,000)

Category	Amount
Policy financial bonds	1,878,584
Financial bonds of commercial banks	205,096
Financial bonds of securities companies	28,454
Financial bonds of finance companies	31,328
Financial bonds of international financial companies	5,000
Subordinated bonds of commercial banks	157,000
Subordinated bonds of insurance companies	60,000
Hybrid capital bonds of commercial banks	90,000
Total	2,455,462

Of which, material financial bonds:

(Unit: RMB10,000)

Bond name	Category	Currency type	Face value (in original currency)	Annual interest (%)	Maturity date	Allowance for impairment losses (in original currency)
Goldman Sachs	Financial bonds of securities companies	EUR	500	0.92	2011-05-11	120
Morgan Stanley	Financial bonds of securities companies	USD	1000	0.37	2010-01-15	244
Morgan Stanley	Financial bonds of securities companies	USD	500	0.53	2011-01-18	121
Midland Financial Group	Financial bonds of commercial banks	USD	800	0.41	2011-10-15	194
GE Capital	Financial bonds of finance companies	USD	600	0.44	2017-02-15	176
Citigroup	Financial bonds of commercial banks	USD	1000	0.38	2014-03-07	294
Former Bear Stearns Cos.	Financial bonds of securities companies	USD	700	0.47	2012-02-01	104
	Total conversion in RMB		36,321			8,915

xii. Development and Profit/loss of Such Businesses as the Entrusted Wealth Management, Asset Securitization, Agency and Custody Services during the Reporting Period

1. Development and profit/loss of entrusted wealth management

In 2009, the entrusted wealth management business of the Company accomplished good results, and accumulatively released 254 issues of wealth management products including Chuangying, Zhuoyue, Huiying and Zengying. The total issue size reached RMB65.9 billion and the income from fee-based business arrived at RMB69.71 million, up RMB39.08 million or 127.59% from the previous year.

2. Development and profit/loss of asset securitization

Not applicable.

3. Development and profit/loss of agency services

In 2009, the agency insurance of the Company was RMB175 million and the Company realized fee income of agency insurance of RMB7.73 million. The agency gold exchange amounted to RMB484 million with fee income of RMB0.61 million. 3,639 customers of agency gold exchange were newly increased.

4. Development and profit/loss of custody services

In 2009, the Company acquired good results in fund sales by proxy and custody. It mainly reflected in: 1) fast development of size under custody. Total size under custody reached RMB28.3 billion and RMB35.58 million custody fee income was generated, up RMB4.96 million or 16% compared to the beginning of the year; 2) expanded size of fund sales by proxy of the Company. The products sold by proxy totaled 245, up 112 or 84% compared to the beginning of the year. The amount of funds sold by proxy was RMB5.1 billion and the Company witnessed an income of fund sales by proxy of RMB33.74 million.

xiii. Derivative Financial Instruments Held

(Unit: RMB1,000)

Category	Contractual/ nominal amount	Fair value	
		Assets	Liabilities
Interest rate swap contract	73,587	–	6,305
Currency swap contract	1,092,186	–	1,532
Undelivered spot foreign exchange contract	10,229,935	45	–
Forwards contract	5,036,397	17,866	–
Interest rate option	73,587	6,305	–
Total		24,216	7,837

(1) Nominal amount only indicates incomplete transaction amount on the balance sheet date rather than the risk amount. Fair value indicates the amount that the person concerned and familiar with the situation voluntarily uses to conduct assets exchange or liabilities pay-off in the fair trade.

(2) The Company used the financial instruments in the management of assets and liabilities, e.g., as for the structural deposits absorbed, the Company reduced the interest rate risk through interest rate swaps.

xiv. Off-balance-sheet Items That may have Material Impact on Financial Position and Operating Results

As at the end of the reporting period, the major off-balance-sheet items that may have material impact on financial position and operating results are as follows:

(Unit: RMB1,000)

Item	At the end of 2009	At the end of 2009
Credit commitments	175,138,208	154,646,583
Of which:		
Irrevocable loan commitments	–	–
Bank acceptance	149,350,212	137,072,956
L/G issued	4,844,867	4,936,118
L/C issued	11,218,362	6,034,874
Unused credit card limit	9,724,767	6,602,635
Lease commitments	2,336,792	1,983,848
Capital expenditure commitments	398,536	88,136

The above-mentioned off-balance-sheet items may have impact on the Company's financial position and operating results, and their final results would be determined by whether the related matters will occur or not in the future. Under certain conditions in the future, they may be converted to the actual obligation of the Company in accordance with the recognition principle of contingencies.

xv. Various risks and risk management

1. Explanation on credit risk status

(1) Principal businesses that incur credit risk. Credit risk means the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to the bank, when commercial bank engages in credit, inter-bank lending and investment. The credit risk of the Company mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans, inter-bank lending, investment in bonds, bill acceptance, L/C, and L/G.

(2) Organizational framework and division of responsibilities of credit risk management. The Company sets up a mutually restricted credit risk management organizational framework with reasonable work division and definite responsibilities: the Related Transactions Control Committee and the Risk Management Committee are established under the Board of Directors of the Company, responsible for the formulation of related transactions management and bank-wide risk management strategy respectively; the Credit Policy Committee of the Head Office is responsible for the formulation, organization and implementation of material credit risk management policies; the Credit Risk Management Department of the Head Office and regional credit risk management departments are respectively responsible for the credit risk management in the whole bank and local branches; according to the authorization system and business risk status, the Company implements the credit approval model of combining the collective approval by the Credit Review Committee with the authorized approval of specific approver; the Company sets up the mutually restricted positions with definite responsibilities in accordance with the risk control links of credit business.

(3) Credit risk management measures during the reporting period. During the reporting period, confronted with the complicated and changing macro-economic situations, the Company closely centered on the core target of "retaining growth, restructuring, controlling risk, and generating profit", proactively carried forward the construction of credit risk management mechanism, steadily enhanced the credit risk management capability and ensured the optimization and improvement of assets structure and quality. First, the Company strengthened the research and implementation of credit policy, intensified the credit portfolio management, adjusted and optimized the credit assets structure; second, the Company reinforced the whole-process credit management, deepened circulating improvement mechanism, and continuously strengthened the credit compliance management; third, the Company established regular risk inspection and risk customer database management system, consolidated the up and down linkage of risk warning disposal, exited from the potential risk customers timely and effectively prevented the increased default risk; fourth, the Company improved the management of same debtor and prevented the mutual guarantee risk of the group customers and related parties; fifth, the Company established the regular credit system evaluation mechanism and optimized the credit business procedure to ensure the system and procedure meeting the requirement of risk control and business development; sixth, the Company developed and commissioned the new credit rating system to improve the risk identification and assessment capability; seventh, the Company reinforced loan risk migration management and fully set aside the allowance for impairment losses; and eighth, the Company stepped up the professional management and centralized disposal on problem loans to continuously improve the clearing and disposal efficiency and result.

(4) Classification methods and procedures of credit asset risk. Pursuant to the standards in the Guidelines on Loan Risk Classification by CBRC, the Company classified the credit assets in comprehensive consideration of such non-financial factors as the solvency, willingness to repay, repayment records, guarantee condition of the borrowers and their internal management; the credit asset risk classification of the Company followed the step-by-step classification and identification procedures: preliminary classification by the customer manager, review by the supervisor of customer manager, and then review, recheck and identification by the regional credit risk management departments.

(5) Basic information on credit risk

Credit exposure. As at the end of the reporting period, without regard to the available collateral or other credit enhancement, the total on-balance-sheet and off-balance-sheet credit exposure of the Company amounted to RMB1,011,619 million. Of which, on-balance-sheet risk exposure stood at RMB836,481 million, accounting for 82.69%; off-balance-sheet risk exposure was RMB175,138 million, accounting for 17.31%.

Risk concentration. As at the end of the reporting period, the balance of single largest corporate loan of the Company was RMB2,113 million, accounting for 4.79% of net capital; the balance of top 10 corporate loans was RMB14,979 million, accounting for 33.99% of net capital. For details of loan distribution by industry and region, please refer to the "Loan Orientation" herein.

Non-performing loans distribution by industry and region. As at the end of the reporting period, industries of the Company with the NPL ratio above the average ratio of corporate non-performing loans (1.57%) were mainly: resident services and other services 19.92%, agriculture, forestry, husbandry and fishery 5.69%, financial industry 3.86%, information transmission, computer service and software industry 2.93%, wholesale and retail industry 2.88%, real estate 2.11%, and manufacturing 1.95%, and the relatively high NPL ratio for resident services and other services, agriculture, forestry, husbandry and fishery and financial industry was mainly due to their lower total loans. Regions of the Company with the NPL ratio above the average NPL ratio of the whole bank (1.50%) were Southern and Central China 1.98%, Northern and Northeastern China 1.71%, and the NPL ratios of Eastern China and Western China were lower than the overall NPL ratio of the whole bank.

(6) Credit risk management measures in 2010. In 2010, the economic situation faces more uncertainties. Against increased inflation expectation, large pressure on economic restructuring and unconsolidated basis for economic recovery, the Company confronted with the larger challenges in credit risk management. The Company will further strengthen the credit risk management and ensure the sound development of credit business. First, make more efforts on research to understand the State's macro policy and regulatory policy, properly and effectively implement credit policies, and effectively guide the credit supply and restructuring. Second, conduct strict credit access management, reinforce post-loan inspection and early warning, speed up the exit from low-quality customers, and effectively prevent and control the increase of problem loans. Third, intensify the organization and promotion of problem loans management, proactively explore the diversification of clearing and disposal means on problem loans, and effectively dispose the problem loans. Fourth, improve the compliance performance management mechanism, strictly investigate the responsibilities and prevent the credit business cases. Fifth, revise and perfect the credit extension system, motivate differential authorization, proactively support the service business development. Sixth, strengthen the risk management in such key businesses as overcapacity industries, real estate loans, government financing platform and group customer and effectively prevent the credit risk under the new trend.

2. Explanation on liquidity risk status

Liquidity risk means the risk that the bank could not acquire sufficient fund in time or could not acquire sufficient fund at a reasonable cost to cope with the assets growth or pay matured debts in spite of its solvency. Liquidity risk management requires the bank to maintain sufficient liquidity assets and smooth market financing channel.

The Company insisted on the prudent principle in the liquidity risk management, maintained adequate excess reserves, fully made use of scientific and technical means to identify and measure the liquidity risk in various businesses and periods and improved the forward-looking and accuracy of fund arrangement. In the meantime, the Company strengthened the construction on liquidity risk management system and mechanism, provided the capability of resisting potential liquidity risk and emergency management through stress testing and emergency response plan, and comprehensively applied the position management, indicator management, gap management, liquidity assets portfolio management, liabilities diversification management, and development and maintenance of market financing channels to guarantee the liquidity of the Company staying at an appropriate level and ensure the normal development of assets and liabilities business.

In 2009, the Central Bank implemented the moderately easy monetary policy, and adequate inter-bank market liquidity also provided good external environment for the liquidity risk management of the Company. As at the end of 2009, the RMB and foreign-currency liquidity ratios of the Company were 28.68% and 97.61% respectively, and the RMB and foreign-currency deposit-to-loan ratio was 70.97%, meeting the regulatory requirements.

3. Explanation on market risk status

(1) Categories of market risk. The market risks undertaken by the Company include interest rate risk and exchange rate risk.

Interest rate risk. The interest rate risk mainly existed in the following businesses of the Company: deposits, loans, bonds, inter-bank lending/repurchase, interest rate swap, forward foreign exchange transaction and swap exchange transaction. The inter-bank lending/repurchase business period of the Company was within 6 months, interest rate swap was used in risk hedging of wealth management products, agency forward foreign exchange maintained even timely, swap exchange transaction period was within 1 month, and the interest rate risk mainly reflected in interest rate repricing risk of bank books and bond assets interest rate risk.

Exchange rate risk. The exchange risk mainly existed in the following businesses (assets) of the Company: spot, forward and swap foreign exchange transaction, gold exchange and foreign exchange capital fund items (including foreign exchange profit and provision). The Company chiefly operated agency gold exchange, and the size of proprietary gold business was relatively small, so the exchange rate risk primarily focused on the foreign exchange transactions.

(2) Overall market risk level and risk position as at the end of 2009. As at the end of 2009, the total gap of RMB and USD interest rate repricing period of the Company's bank book was RMB32 billion. If the overall interest rate curve rises by 100 basis points, the net interest income of the Company in the coming year will increase by RMB121 million; the balance of bond assets (exposure face value) was RMB79.31 billion, average duration was 3.75 years, and the basis point value (PV01) was RMB29,886.7 thousand; the total foreign exchange exposure (including gold) was RMB1.7 billion, and the accumulated foreign exchange exposure position percentage was 3.95%. If the exchange rate of various foreign currencies to RMB entirely appreciates by 1%, it will generate an income of RMB16.49 million.

(3) Market risk capital in 2009. As at the end of 2009, the total position of trading book of the Company was RMB2.5 billion. No market risk capital should be set aside pursuant to the related requirements of the Administrative Measures on Capital Adequacy Ratio of Commercial Banks.

(4) Market risk management in 2009. Independent market risk management department of the Company was responsible for the market risk identification, measurement, monitoring and control for the whole bank. The market risk management in 2009 was carried forward in the following three aspects: first, strived to refine the market risk management policies, procedure and requirements, formulated and issued the 2009 Market Risk Management Policy of Hua Xia Bank, Guiding Suggestions on 2009 Market Risk Management of Hua Xia Bank, Implementation Rules on Market Risk Identification of Hua Xia Bank and Implementation Rules on Market Risk Measurement of Hua Xia Bank; second, strengthened the analysis and prompt warning on market dynamics, strictly managed the risk limit, monitored daily, which avoided the shock of large fluctuation in interest

rate and exchange rate against the increased uncertainties in global financial market, and the effectiveness of the market risk control of the whole bank was improved; third, pursuant to the external regulatory requirements and internal management requirement, the Company learned international banks' experiences, established the market risk measurement indicators system integrating sensitive indicators, value at risk (VAR) and stress testing, continuously improved the content of market risk report, and preliminarily established the comprehensive market risk management reporting system towards different targets such as the Senior Management, the Board of Directors and the regulatory agencies, including daily report, ten-day report, monthly report, quarterly report and annual report.

(5) Possible market risks in 2010 and relevant response strategies. In 2010, it is anticipated that the global economy will continue to recover and interest rates will be hiked generally. In the meanwhile, regional economy will recover in an unbalanced way, and sovereign debts risk in some countries will be aggravated. China will maintain the moderately easy monetary policy, focus on the economic structure and industry structure adjustment. It is predicted that the central bank is highly possible to raise the interest rate after the second quarter, and the major factor affecting the time point of interest rate rises is the implementation result of liquidity squeeze policies such as increasing the deposit reserve ratio. Based on the market anticipation of interest rate hike, in combination with the overall operating target of the Company in 2010, the 2010 market risk management and response strategies include: first, strengthen the predictive analysis on deposit reserve ratio, interest rate and other monetary policy tools as well as changes in major assets prices, closely pay attention to the regional market changes, and promote the related business development of the Company and forward-looking and effectiveness of restructuring; second, appropriately deploy market risk capital, match the assets and liabilities structures of various currencies, and control the market risk exposure; third, improve and enhance the risk management on bank books, proactively adjust assets and liabilities structure, and increase the interest rate spread and bond assets profitability; fourth, continuously improve market risk policy and procedure, constantly perfect measurement indicators system, reinforce the application and promotion of measurement methods and tools, and promote the risk measuring capability; and fifth, strengthen the accumulation and exploration on risk management data and speed up the construction of risk management information system.

4. Explanation on operational risk status

(1) Operational risk status and risk management measures in 2009. In 2009, the primary operational risk of the Company was case risk. In face of global financial crisis, the operational risk management of the Company closely centered on the core business target. In accordance with the regulatory requirements of CBRC and the New Basel Capital Accord, the Company laid a good foundation in construction of operational risk system and administrative measures, achieved the target of "nil case", controlled the operational risk at a tolerable level, and there were no material operational risk case in the whole year. The major measures were as follows:

Firstly, developed special campaigns on cases to effectively eliminate the potential case risk;

Secondly, reinforced the internal control management and the compliance consciousness of all employees were strengthened;

Thirdly, intensified the process management and innovated the business operational risk identification mechanism;

Fourthly, improved the operational risk management system, established the three lines of defense to prevent operational risk, as well as the "quaternary" operational risk management system, and implemented the comprehensive operational risk management for all employees and in the whole process; and

Fifthly, implemented the "guidelines" of regulatory authorities, improved the information technology risk management system, and the capability to provide support and guarantee for operations management was further strengthened.

(2) Possible operational risks in 2010 and relevant response strategies. In 2010, due to the unstable basis for world economic recovery, insufficient internal driving force for domestic economic recovery and the forthcoming World Expo and the Asian Games in China, the operational risk with case risk as the major form is still apparent. Pursuant to the overall operating development target and requirement of the whole bank, the Company proposed the operational risk management strategy for 2010: in combination with the business reality, continue to comply with the requirements of the New Basel Capital Accord and the regulatory documents, strengthen the specific implementation of operational risk management in the Company, closely center on the core targets of "restructuring, controlling risk, generating profit and promoting development", focus on improving the capability of using operational risk management measures to identify, evaluate, and monitor the case risk and

information technology risk in the process of business operation and development, so as to accomplish the target of "nil case" and guarantee the business development.

III. INVESTMENTS DURING THE REPORTING PERIOD

i. Use of Funds Raised

Not applicable.

ii. Major Investments Using Non-raised Funds, Progress and Return

In 2009, the Company made no major investments using non-raised funds.

IV. MAJOR CHANGES IN BUSINESS ENVIRONMENT, MACRO POLICIES, LAWS AND REGULATIONS AND THEIR IMPACTS

i. Since the fourth quarter of 2008, China has introduced an array of macro control policies aimed at "retaining growth, strengthening domestic demand and restructuring". The proactive fiscal policy and moderately loose monetary policy have helped stabilize and recover the economy. In respect of fiscal policy, the RMB4 trillion investment plan has been actively implemented since November 2008, rising public demands insured the growth rate of fixed asset investment in 2009, the trend of slowing economic growth was reversed, and investments in people's well-being fields were instrumental to balanced economic growth; in respect of monetary policy, new lending by commercial banks amounted to RMB9.59 trillion in 2009, up RMB4.69 trillion from one year ago, much higher than the RMB4.9 trillion new lending made in 2008 and the RMB5 trillion new lending baseline of 2009. Extraordinary growth in lending has more propped up economic growth, stimulated recovery of real economy. In addition, huge lending resulted in excess liquidity and rebounding price index, higher inflation expectations, asset price surges and rising risks of credit assets, posing new challenges to commercial banks.

ii. In December 2008, CBRC issued the *Guideline on the Establishment of Specialized Small Business Financial Service Institutions by Banks*, encouraging banks to establish quasi-subsidiaries and quasi-corporate entities specializing in small business financial services that enjoy independence in pricing, operation and accounting. In March 2009, CBRC explicitly required commercial banks to complete setup of specialized small business financial institutions that meet "1+3" requirements by the end of the second quarter of 2009, i.e. tier-1 institutions established at head office level, charged with SME financial service and operating with independent credit plan, independent financial and human resources and independent credit approval system and SME customer standards. The policy guidance is conducive for commercial banks to expand SME financial services, provide stronger supports to real economy and overcome financing difficulties that have long troubled SMEs.

iii. In April 2009, CBRC issued the *Opinion on Adjusting the Market Access Policy on Branches of Small and Medium Commercial Banks (Trial)* to adjust the market access policy on branches of joint-stock commercial banks and urban commercial banks. According to the adjustment policy, joint-stock commercial banks having branches in the capital city of a province will be exempt from quantity limit of branches in other cities of the province, and the approval authority is delegated down to local CBRC offices. In addition, uniform working capital restrictions on branches and sub-branches are lifted. These policy adjustments loosen restrictions on and simplify procedures of institutional setup and allow commercial banks to expedite branch setup, extend reach of services and support local economic development, and also pose new challenges to small and medium banks' ability to allocate and manage institutional resources.

iv. In July 2009, CBRC issued the *Provisional Measures for Management of Loans for Fixed Assets* and the *Guidelines on Project Financing*; in February 2010, the *Interim Measures for Management of Working Capital Loans* and the *Interim Measures for Management of Personal Loans* were issued, aimed at guaranteeing flow of credit funds, regulating banks' lending and protecting project loans from risks. In the loose monetary policy of 2009, the "Three Measures and One Guideline" were issued successively to strengthen whole-process management concept of commercial bank loans and, through authorized payment, further tighten supervision of loan use and protect loans from misuse.

v. In September 2009, CBRC issued the *Guidelines on Management of Reputational Risks of Commercial Banks* that explicitly requires commercial banks to include reputational risk management in corporate governance and the comprehensive risk management system, thereby proactively, effectively preventing reputational risks and addressing reputational events. These guidelines also require commercial banks to establish a complaint handling supervision and assessment mechanism, conduct supervision and assessment in terms of maintaining customer relations, performing the duty of disclosure, tackling problems raised by customers, safeguarding interests of customers and improving customer satisfaction, and accept public oversight voluntarily. There guidelines pose higher demands to commercial banks in managing reputational risks, improving the comprehensive risk management system, enhancing customer management capability, increasing market responsiveness and protecting interests of financial consumers.

vi. In October 2009, CBRC issued the *Notice on the Capital Replenishment Mechanism of Commercial Banks* requiring subordinated debt cross-holdings of banks be deducted to distinguish existing from new ones; that is to say, subordinated debts issued prior to 1 July 2009 will not be adjusted retrospectively, while those issued thereafter are fully deducted and the calculation criteria of debt capital are adjusted. Debt capital is required to account for no more than 25% of core capital. In addition, the access limit on issuance of subordinated debts is specified such that major commercial banks shall have a core capital adequacy ratio of 7% and other banks reach 5% before replenishing capital using subordinated debts; in addition, subordinated debts shall be offered only to non-banking institutions in principle, adding to the difficulty and cost of issuance. Realignment of the capital replenishment policy makes it more urgent for commercial banks to seek capital financing and challenge the capital management capability of commercial banks.

V. ROUTINE ACTIVITIES OF THE BOARD OF DIRECTORS

i. Meetings of the Board of Directors during the Reporting Period

1. On 16 March 2009, the 11th Meeting of the 5th Board of Directors was held by correspondence, with resolutions published on the *Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 18 March 2009.

2. On 17 April 2009, the 12th Meeting of the 5th Board of Directors was held in Beijing, with resolutions published on the *Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 21 April 2009.

3. On 28 April 2009, the 13th Meeting of the 5th Board of Directors was held by correspondence, with resolutions published on the *Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 30 April 2009.

4. On 6 August 2009, the 14th Meeting of the 5th Board of Directors was held in Beijing, with resolutions published on the *Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 8 August 2009.

5. On 29 October 2009, the 15th Meeting of the 5th Board of Directors was held in Beijing, with resolutions published on the *Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 31 October 2009.

6. On 27 December 2009, the 16th Meeting of the 5th Board of Directors was held by correspondence, with resolutions

published on the *Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 29 December 2009.

ii. Implementation of Resolutions of the General Meeting of Shareholders by the Board of Directors during the Reporting Period

The Board of Directors of the Company distributed cash dividend in accordance with the profit distribution plan for 2008 passed at the Annual General Meeting for 2008; specifically, with 4,990,528,316 shares outstanding as at the end of 2008, a total of RMB648,768,681.08 was distributed in cash to all shareholders at RMB1.30 (pre-tax) per 10 shares. Relevant announcement was published on the *Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 10 June 2009. The plan was implemented on 22 June 2009.

The Board of Directors of the Company amended the Articles of Association in accordance with the resolution on amendment to the Articles of Association passed at the Annual General Meeting for 2008 of the Company. The amended Articles of Association has been approved by regulators.

iii. Summary of Performance of Duties of the Audit Committee

The Audit Committee conducted five meetings and surveys; reviewed regular reports, the profit distribution plan, and the self-assessment report on internal control of the Company; and made a survey on cost and expense control of the Company in the first half of the year.

The Audit Committee made considerable review efforts during preparation of financial reports for 2009.

The Audit Committee reviewed unaudited annual financial statements of the Company, agreed to have these financial statements audited by external auditors and raised specific requirements on the auditing of annual financial statements.

The Audit Committee reviewed financial statements of the Company again after certified public accountants issued an initial audit option, and agreed to prepare the Annual Report 2009 of Hua Xia Bank and its summary based on these financial statements.

On 12 March 2010, the Audit Committee held a meeting, which reviewed and adopted the Annual Report 2009 of the Company and its summary, agreed to submit them to the Board of Directors for review; listened to the accounting firm's audit report in the year, and communicated with it on significant audit matters; reviewed and adopted the *Proposal on Engagement of the Accounting Firm for 2010 and its Remuneration*, agreed to retain Jingdu Tinwha Certified Public Accountants Co., Ltd. for domestic audit in 2010, retain Ernst & Young for international audit in 2010 and submit the proposal to the Board of Directors for review.

iv. Summary of Performance of Duties of the Remuneration and Assessment Committee

The Remuneration and Assessment Committee conducted two meetings; assessed and reviewed performance of directors and senior management members in 2008, organized mutual assessment of independent directors; and proposed the plan for performance assessment of senior management members with respect to each business/field in charge in 2009.

The Remuneration and Assessment Committee reviewed remuneration data of directors, supervisors and senior management members disclosed in the Annual Report 2009 of the Company. In the opinion of the Remuneration and Assessment Committee, the remuneration of directors, supervisors and senior management members disclosed in the Annual Report 2009 of the Company complied with relevant assessment procedures and remuneration policies of the Company, remuneration distribution was reasonably adjusted having regard to the prevailing economic conditions, macro control policies of the State and particular circumstances of the Company and its peers, and the disclosure met requirements of relevant laws and regulations.

v. Establishment and Improvement of the Outside Information User Management System

To strictly implement requirements on and strengthen management of information dissemination to outside entities, the Company amended the *Information Disclosure Procedures of Hua Xia Bank Co., Limited* to clarify requirements on outside information users. A confidentiality agreement and stringent confidentiality arrangements shall be made with outside information users including sponsors, securities underwriters, law firms, accounting firms and printers to avoid information leakage before public disclosure. As for information not publicly disclosed and required to be reported by authorities other than securities regulators, the Company is obligated to cause information users to limit the scope of use, keep confidential relevant secrets and keep a record of its use.

VI. PROFIT DISTRIBUTION PLAN FOR 2009

Cash dividends distributed in the previous three years and their proportions to net profit are shown in the table below.

(Unit: RMB1,000)

Item	2008	2007	2006
Cash dividend distributed	648,768	462,000	462,000
Net profit attributable to shareholders of listed company	3,070,838	2,101,189	1,457,043
% of net profit (%)	21.13	21.99	31.71

Jingdu Tinwha Certified Public Accountants Co., Ltd. and Ernst & Young engaged by the Company issued audit reports with standard unqualified opinions. The Company's audited net profit for 2009 was RMB3,760,226,845.68.

Pursuant to the FAQ on the *Criteria on Information Disclosure by Companies Offering Securities to the Public No. 4 – Differences between Domestic and Overseas Audits and Profit Distribution Standards of Financial Companies* (ZH.J.H.J.Zi. [2001] No. 58) issued by CSRC and the *Measures for the Administration of Bad Debt Provisions of Financial Institutions* (C.J. [2005] No. 49) and the *Articles of Association of Hua Xia Bank Co., Limited*, the Company made statutory surplus reserve based on the net profit audited by the domestic accounting firm; set aside general reserve from net profit at the end of the year to cover unidentified possible losses; and distributed dividend to common shareholders based on the profit available for distribution audited by domestic and overseas accounting firms. The annual profit distribution of the Company for 2009 is planned as follows:

(1) RMB376,022,684.57 is set aside as statutory surplus reserve at 10% of the net profit of RMB3,760,226,845.68 for 2009 as audited by the domestic accounting firm;

(2) Pursuant to the *Measures for the Administration of Bad Debt Provisions of Financial Institutions* (C.J. [2005] No. 49) released by the Ministry of Finance, the balance of general reserve shall not be less than 1% of the balance of assets exposed to risks and losses at the end of the reporting period. RMB1,581,577,348.84 is proposed as general reserve for 2009 in compliance with requirements of the Ministry of Finance. And

(3) Dividend distributed to common shareholders: With 4,990,528,316 shares outstanding, a total of RMB648,768,681.08 will be distributed for 2009 at RMB1.30 (pre-tax) per 10 shares. Retained profit after profit distribution for 2009 will be carried forward to future years.

The foregoing profit distribution plan will be implemented within two months after being reviewed and passed at the Annual General Meeting for 2009.

SECTION IX
REPORT OF THE BOARD OF SUPERVISORS

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I. MEETINGS OF THE BOARD OF SUPERVISORS

i. On 16 April 2009, the 9th Meeting of the 5th Board of Supervisors was held in Beijing. The meeting reviewed and adopted the *Annual Work Report 2008 of the Board of Supervisors of Hua Xia Bank Co., Limited, Examination and Survey Plan 2009 of the Board of Supervisors of Hua Xia Bank Co., Limited, Annual Financial Report 2008 of Hua Xia Bank Co., Limited, Annual Budget Report 2009 of Hua Xia Bank Co., Limited, Proposal on Setting aside of General Reserve of Hua Xia Bank Co., Limited for 2008, Profit Distribution Plan of Hua Xia Bank Co., Limited for 2008, Report on Use of Raised Funds, Proposal on the Annual Report 2008 of Hua Xia Bank Co., Limited, Results of Evaluation of Supervisors by the Board of Supervisors and Mutual Evaluation of Supervisors in 2008, Special Audit Report on Related transactions of Hua Xia Bank Co., Limited in 2008, Proposal on the Self-assessment Report on Internal Controls of the Board of Directors of Hua Xia Bank Co., Limited*, and *Proposal on the Corporate Social Responsibility Report 2008 of Hua Xia Bank Co., Limited*. The announcement of resolutions was published on the *Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 21 April 2009.

ii. On 28 April 2009, the 10th Meeting of the 5th Board of Supervisors was held by correspondence. The meeting reviewed and adopted the *Proposal on the First Quarterly Report 2009 of Hua Xia Bank Co., Limited* and *Results of Performance Assessment of Directors and Senior Management Members of Hua Xia Bank in 2008*. The announcement of resolutions was published on the *Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 30 April 2009.

iii. On 6 August 2009, the 11th Meeting of the 5th Board of Supervisors was held in Beijing. The meeting reviewed and adopted the *Proposal on Interim Report 2009 of Hua Xia Bank Co., Limited, Report on Examination of Personal Housing Mortgage Loans of Hua Xia Bank Ji'nan Branch* and *Proposal on Information Reporting System of the Management of Hua Xia Bank Co., Limited to the Board of Supervisors*. The announcement of resolutions was published on the *Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 8 August 2009.

iv. On 28 October 2009, the 12th Meeting of the 5th Board of Supervisors was held in Beijing. The meeting reviewed and adopted the *Proposal on the Third Quarterly Report 2009 of Hua Xia Bank Co., Limited* and *Report on Examination of Credit Asset Quality of Hua Xia Bank Hangzhou Branch*; and listened to the special report presented on actions for and effectiveness of credit asset quality enhancement of Hua Xia Bank Shanghai Branch. The announcement of resolutions was published on *the Shanghai Securities News, China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 31 October 2009.

II. SPECIAL EXAMINATIONS AND SURVEYS BY THE BOARD OF SUPERVISORS

i. In April 2009, the Board of Supervisors examined the legal performance of duties of directors of the Company and senior management members of the Head Office in 2008 and issued an evaluation opinion.

ii. In May 2009, the Board of Supervisors listened to the report on handling of violations and non-compliances across the Bank in 2008.

iii. In July 2009, the Board of Supervisors examined personal housing mortgage loans of Ji'nan Branch of the Company and issued an examination report.

iv. In July 2009, the Board of Supervisors conducted a field survey on compliance activities of Huhhot Branch of the Company and issued a survey report.

v. In October 2009, the Board of Supervisors conducted an onsite examination of the credit asset quality of Hangzhou Branch and issued an examination report.

vi. At the end of October 2009, the Board of Supervisors listened to the report on actions for and effectiveness of credit asset quality enhancement of Shanghai Branch.

III. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS

During the reporting period, the Company held one general meeting of shareholders and six meetings of the Board of Directors. Supervisors were present as non-voting attendees at the general meeting of shareholders and meetings of the Board of Directors to exercise supervision over performance of duties of directors and senior management members of the Company.

i. Legal Compliance

During the reporting period, the Company operated in compliance with laws and the decision-making process was legitimate and valid. No directors or senior management members were found to have acted in violation of laws, regulations or the Articles of Association or against interests of the Company and its shareholders when acting in their official capacity.

ii. Authenticity of Financial Statements

The annual financial statements of the Company reflected the financial position and operating results of the Company truly and fairly. Jingdu Tinwha Certified Public Accountants Co., Ltd. and Ernst & Young audited financial statements for this year pursuant to domestic and international audit standards respectively and issued audit reports with standard unqualified opinions.

iii. Use of Funds Raised

During the reporting period, funds raised were used in accordance with the resolution on non-public offering made at the First Extraordinary General Meeting of Shareholders of the Company in 2008.

iv. Purchase and Sale of Assets

The Company neither purchased nor sold assets during the reporting period.

v. Related transactions

During the reporting period, the Company's related transactions were conducted fairly and reasonably without any act found that infringed upon the interests of shareholders and the Company.

vi. Internal Control System

The Company built a complete, reasonable and effective system of internal control.

vii. Implementation of Resolutions of the General Meeting of Shareholders

The Board of Supervisors raised no objection to the reports or proposals submitted by the Board of Directors to the General Meeting of Shareholders and supervised the implementation of resolutions of the General Meeting of Shareholders. The Board of Supervisors believes that the Board of Directors earnestly implemented resolutions of the General Meeting of Shareholders.

SECTION X
SIGNIFICANT EVENTS

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I. MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

During the reporting period, the Company was not involved in legal proceedings or arbitrations with a significant impact on operating activities of the Company. As at 31 December 2009, the Company had 51 pending lawsuits involving RMB10 million or above individually, totaling RMB1,167,216,960, of which 10 cases that involved RMB154.18 million were brought against the Company. In pending lawsuits of the Company, treasury bonds with a book value of RMB20 million were frozen by the court. During the reporting period, the Company has made full provisions for anticipated liabilities that may arise from pending lawsuits brought against the Company.

II. HOLDINGS IN OTHER LISTED COMPANIES, COMMERCIAL BANKS, SECURITIES FIRMS, INSURANCE FIRMS, TRUST COMPANIES, FUTURES COMPANIES AND OTHER FINANCIAL COMPANIES

i. Holdings in Other Listed Companies

Stock code symbol	Short name of stock	Initial investment cost (RMB)	Shareholding proportion (%)	Book value at end of period (RMB)
V	Visa Inc.	1,296,655	0.0003	568,134.62

ii. Holdings in Non-listed Financial Companies and Companies to be Listed

Name	Initial investment cost (RMB)	Number of shares held	Shareholding proportion (%)	Book value at end of period (RMB)
China UnionPay Co. Ltd.	81,250,000	62,500,000	2.13	81,250,000

III. MATERIAL ASSET ACQUISITION, DISPOSAL AND MERGER

During the reporting period, the Company did not engage in any material asset acquisition, disposal and merger.

IV. IMPLEMENTATION OF SHARE INCENTIVE SCHEME AND EFFECTS

Not applicable.

V. INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ON EXTERNAL GUARANTEES

In accordance with relevant requirements of the Document of China Securities Regulatory Commission (ZH.J.F. [2003] No. 56), independent directors of the Company reviewed external guarantees of the Company in 2009 on a fair, impartial and objective basis. Specific review opinions are hereby given as follows:

The external guarantee service of the Company is a part of the ordinary banking services within the business scope of the Company as approved by the People's Bank of China and China Banking Regulatory Commission. As at the end of 2009, the outstanding guarantees of the Company amounted to RMB4.845 billion, down RMB91 million from the beginning of the year; during the reporting period, no single external guarantee exceeded RMB2 billion or 5% of the audited net assets in the previous year.

The Company enhanced guarantee risk management by including guarantee activities in the scope of centralized credit management, conducting stringent credit investigation, approval and management and strengthening risk identification, assessment, monitoring and control, which has effectively controlled guarantee risks. During the reporting period, external guarantee business of the Company was run in a normal course without any advance payments or non-compliances.

VI. MATERIAL RELATED-PARTY TRANSACTIONS

i. Loans to Shareholders with a 5% or Higher Interest

Loans to shareholders with a 5% or higher interest in the Company during the reporting period are shown in the table below:

(Unit: RMB1,000)

Name of shareholder	Number of shares held (10,000)	Outstanding loans at end of 2009	Outstanding loans at end of 2008
Shougang Corporation	69,764.69	900,000	900,000

ii. Material Related-party Transactions

Outstanding loans to shareholders with a 5% or higher interest in the Company and their related parties as at the end of the reporting period, with individual amounts of RMB30 million or above, are shown in the table below:

(Unit: RMB1,000)

Name of related party	Outstanding loans at end of 2009	% of total loans
Shougang Corporation	900,000	0.21
Beijing Shougang Special Steel Co., Ltd.	118,000	0.03
Shougang Changzhi Iron & Steel Co., Ltd.	50,000	0.01
Zhongneng Fuel Logistics Co., Ltd.	40,000	0.01

iii. As at the end of the reporting period, the Company held RMB800 million worth of medium-term notes of shareholder Shougang Corporation, RMB400 million worth of bonds of shareholder State Grid Corporation and its related party China Power Finance Co. Ltd., and RMB58.78 million worth of bonds of shareholder Deutsche Bank AG.

During the reporting period, pursuant to the Administrative Measures for Related-party Transactions between Commercial Banks and Their Insiders or Shareholders released by CBRC, the Company further tightened management and control of related transaction risks, reasonably controlled limits of related transactions and proactively adjusted the structure of related transactions. These moves have helped further improve related transaction management and effectively control related transaction risks of the Company.

VII. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

i. Material Custody, Contract and Lease

During the reporting period, the Company did not take custody of or contract assets of other companies, and no other companies took custody of, contract or rent assets of the Company.

ii. Material Guarantees

Except for financial guarantees within the business scope as approved by CBRC, the Company had no material guarantees that needed to be disclosed during the reporting period.

iii. Events concerning Entrusting Other Persons for Cash Management

No such events concerning entrusting other persons for cash management occurred in the Company during the reporting period.

iv. Other Material Contracts

No material contract disputes took place during the reporting period.

VIII. COMMITMENTS

i. During the reporting period, the shareholders having a 5% or higher interest in the Company did not make any commitments that may impose any significant impact on operating results or financial position of the Company.

ii. Special Commitments Made by Holders of Non-tradable Shares during Share Split Reform and Their Performance

Name of shareholder	Commitment	Performance	Remark
Shougang Corporation Shandong Electric Power Corporation Hongta Tobacco (Group) Co., Ltd. Luen Tai Group Co., Ltd.	After the share split reform, restricted shares will not be sold within 24 months; restricted shares sold within 36 months will not exceed 30% of total restricted shares held	No violation of commitment	
Sal. Oppenheim Jr. & Cie. KGaA Beijing Sanjili Energy Co., Ltd. Baotou Huazi Industry Co., Ltd. Shanghai Giant Lifetech Co., Ltd. Shanghai Construction (Group) General Co. China Automobile Trading Co., Ltd. (formerly known as China Trading Center For Automobile Import) China Construction First Division Group Construction & Development Co., Ltd. (formerly known as China Construction First Division Construction & Development Co., Ltd.) Jiangsu Communication Holding Co. Suzhou Yingcai Investment Group Co. Shanghai Shangtou Investment Management Co., Ltd. China Petrochemical Corporation Jiangsu Petroleum Exploration Bureau Zhuhai Zhenhua Group Co., Ltd. Tangshan Iron and Steel Group Co., Ltd. Sinopec Yangzi Petrochemical Co., Ltd. Baoding Chang'an Bus Co., Ltd. Handan Iron & Steel Group Co., Ltd. Evertrust Holding Group Co., Ltd. Zhejiang Silk Group Co., Ltd. Shanghai Industrial Development Co., Ltd. Shanghai Branch, China Construction Bank Corporation Vanion Investment Group (formerly known as Beijing Vanion Yonglong Property Development Co., Ltd.)	After the share split reform, restricted shares sold within 24 months will not exceed 15% of total restricted shares held; restricted shares sold within 36 months will not exceed 30% of total restricted shares held.	No violation of commitment	

Notes: (1) 21 million restricted shares held by Luen Tai Group Co., Ltd. (shares held by State-owned corporations) were auctioned by judicial authority on 16 September 2006 and purchased by Beijing Jing'en Technological Development Co., Ltd. (shares held by domestic corporations), with the transfer registered on 29 September 2006. The borrower Beijing Jing'en Technological Development Co., Ltd. made a commitment to honor its obligation of lockup and phased trading as required by relevant laws, regulations and securities regulators.

(2) As Shanghai Giant Lifetech Co., Ltd. paid consideration on behalf of Evertrust Holding Group Co., Ltd. during the share split reform, the former shareholder Evertrust Holding Group Co., Ltd. transferred 10 million restricted shares (shares held by state-owned corporations) to Shanghai Giant Lifetech Co., Ltd. (shares held by domestic corporations), with the transfer registered on 27 November 2006.

(3) On 6 June 2007, 126.6 million restricted shares of the Company became tradable on exchange. For details, see the Announcement of Releasing Restricted Shares of Hua Xia Bank Co., Limited for Trading published on the Shanghai Securities News, China Securities Journal and Securities Times and the website of Shanghai Stock Exchange on 1 June 2007.

(4) The Higher People's Court of Shandong Province ordered on 6 November 2007 that 200 million shares of the 289 million restricted shares held in the Company by Luen Tai Group Co., Ltd. should be transferred to Runhua Group Co., Ltd. The order was enforced on 9 November 2007 by Higher People's Court of Shandong Province. Runhua Group Co., Ltd. has the obligation of lockup and phased trading as required by relevant laws, regulations and securities regulators.

(5) State Grid Corporation accepted administrative transfer of 342.4 million restricted shares held in the Company by the former shareholder Shandong Electric Power Corporation, with the transfer registered on 20 December 2007. Pursuant to the share split reform scheme of the Company, State Grid Corporation made a commitment to further perform obligations relating to restrictions on sale of these shares.

(6) On 6 June 2008, 513.9 million restricted shares of the Company became tradable on exchange. For details, see the Announcement of Releasing Restricted Shares of Hua Xia Bank Co., Limited for Trading published on the Shanghai Securities News, China Securities Journal and Securities Times and the website of Shanghai Stock Exchange on 2 June 2008.

(7) 11.088 million restricted shares held in the Company by the former shareholder Shanghai Shangtou Investment Management Co., Ltd. were transferred free to Shanghai Industrial Investment (Holdings) Co., Ltd., with the transfer registered on 26 August 2008. Shanghai Industrial Investment (Holdings) Co., Ltd. held 11.088 million restricted shares in the Company. Shanghai Industrial Investment (Holdings) Co., Ltd. made a commitment to further perform obligations relating to restrictions on sale of these shares.

(8) The Higher People's Court of Shandong Province ordered on 16 September 2008 that 40 million shares of the 89 million restricted shares held in the Company by Luen Tai Group Co., Ltd. should be transferred to Runhua Group Co., Ltd. The order was enforced in that month. Runhua Group Co., Ltd. has the obligation of lockup and phased trading as required by relevant laws, regulations and securities regulators.

(9) On 23 March 2009, 49 million restricted shares held in the Company by Luen Tai Group Co., Ltd. were auctioned in public as ordered by the Higher People's Court of Shandong Province. These shares were purchased by Runhua Group Co., Ltd., with the transfer registered on 8 April 2009. Runhua Group Co., Ltd. has the obligation of lockup and phased trading as required by relevant laws, regulations and securities regulators.

(10) On 8 June 2009, 1,583.5 million restricted shares of the Company became tradable on exchange. For details, see the Announcement of Releasing Restricted Shares of Hua Xia Bank Co., Limited for Trading published on the Shanghai Securities News, China Securities Journal and Securities Times and the website of Shanghai Stock Exchange on 2 June 2009.

iii. Shareholder Deutsche Bank AG and its related entity Deutsche Bank Luxembourg S.A. made the following commitment on the lockup period of 416 million non-tradable shares in the Company transferred to them: They will not sell, transfer, put in custody, pledge or otherwise dispose of these shares and related interests in part or in whole, or transfer or pledge any right in these shares to any third party, unless otherwise required by laws, regulations or regulatory authorities.

IX. ENGAGEMENT AND REMOVAL OF ACCOUNTING FIRMS

In 2009, the Company engaged Jingdu Tinwha Certified Public Accountants Co., Ltd. and Ernst & Young to audit statutory and supplementary financial statements for 2009. The Company paid Jingdu Tinwha Certified Public Accountants Co., Ltd. RMB2.7 million as audit fee for 2009, and paid Ernst & Young RMB2.7 million as audit fee for 2009.

Jingdu Tinwha Certified Public Accountants Co., Ltd. and Ernst & Young have provided audit services for the Company for nine years.

X. PENALTY TO THE COMPANY, THE BOARD OF DIRECTORS AND DIRECTORS

During the reporting period, the Company, the Board of Directors and directors did not receive any disciplinary inspection, administrative penalty or public criticism by CSRC or public censure by stock exchanges, or any punishment by other regulatory or judicial authorities.

XI. FUND OCCUPANCY AND RECOVERY

In 2009, as audited and confirmed by Jingdu Tinwha Certified Public Accountants Co., Ltd., no funds of the Company were occupied for non-operating purposes by majority shareholders or their subsidiaries.

XII. OTHER SIGNIFICANT EVENTS

During the reporting period, the Company released restricted shares from the share split reform for trading. 1,583,500,000 restricted shares became tradable on exchange on 8 June 2009. Announcement of the event was published on the *Shanghai*

Securities News, *China Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange on 2 June 2009.

XIII. INDEX OF INFORMATION DISCLOSURES

Event	Released on (journals)	Date of publication	Released on (website)
Announcement of Hua Xia Bank Co., Limited	*Shanghai Securities News*, *China Securities Journal* and *Securities Times*	2009.02.04	http://www.sse.com.cn
Announcement on Renaming of the Accounting Firm Engaged	ditto	2009.02.09	ditto
Announcement on Resignation of Independent Directors	ditto	2009.03.17	ditto
Announcement on Resolutions of the 11th Meeting of 5th Board of Directors	ditto	2009.03.18	ditto
Announcement on Leave of Sun Jiachun from the Fund Custody Department	ditto	2009.04.20	ditto
Annual Report 2008	ditto	2009.04.21	ditto
Announcement on Resolutions of the 12th Meeting of 5th Board of Directors	ditto	2009.04.21	ditto
Announcement on Resolutions of the 9th Meeting of 5th Board of Supervisors	ditto	2009.04.21	ditto
Notice on Annual General Meeting for 2008	ditto	2009.04.21	ditto
Announcement on Related transactions	ditto	2009.04.21	ditto
Announcement on Resignation of Director	ditto	2009.04.21	ditto
First Quarterly Report in 2009	ditto	2009.04.30	ditto
Announcement on Resolutions of the 13th Meeting of 5th Board of Directors	ditto	2009.04.30	ditto
Announcement on Resolutions of the 10th Meeting of 5th Board of Supervisors	ditto	2009.04.30	ditto
Announcement on Resolutions of Annual General Meeting for 2008	ditto	2009.05.12	ditto
Announcement on Release of Restricted Shares for Trading	ditto	2009.06.02	ditto
Announcement on Implementation of the Annual Profit Distribution Plan for 2008	ditto	2009.06.10	ditto
Announcement on Approval of Eligibility of Xu Ming in the Fund Custody Department for A Senior Management Member in the Fund Industry	ditto	2009.07.15	ditto
Announcement on Eligibility for Custody of Insurance Funds	ditto	2009.07.16	ditto
Announcement on Renaming of the Fund Custody Department	ditto	2009.08.03	ditto
Interim Report 2009	ditto	2009.08.08	ditto
Announcement on Resolutions of the 14th Meeting of 5th Board of Directors	ditto	2009.08.08	ditto
Announcement on Resolutions of the 11th Meeting of 5th Board of Supervisors	ditto	2009.08.08	ditto
Indicative Announcement on Transfer of Shares Held by Shareholders	ditto	2009.09.25	ditto
Third Quarterly Report in 2009	ditto	2009.10.31	ditto
Announcement on Resolutions of the 15th Meeting of 5th Board of Directors	ditto	2009.10.31	ditto
Announcement on Resolutions of the 12th Meeting of 5th Board of Supervisors	ditto	2009.10.31	ditto
Announcement on Change of Sponsor Representative	ditto	2009.11.05	ditto
Indicative Announcement of Changes in Equity	ditto	2009.11.19	ditto
Announcement on Renaming of Accounting Firm Engaged	ditto	2009.12.14	ditto
Announcement on Resolutions of the 16th Meeting of 5th Board of Directors	ditto	2009.12.29	ditto

SECTION XI
FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS

i. Financial statements of the Company for 2009 were audited by Jingdu Tinwha Certified Public Accountants Co., Ltd., signed for by CPAs Li Xin and Guo Liying, and issued with an audit report (J.D.T.H.SH.Zi. (2010) No. 0532) with a standard unqualified opinion. Ernst & Young audited supplementary financial statements prepared by the Company for 2009 in accordance with the International Financial Reporting Standards (IFRS) pursuant to the International Standard on Auditing (ISA) and gave an audit report with a standard unqualified opinion.

ii. Changes in Accounting Policies and Estimates and Corrections of Errors

In 2009, the Company made no changes in accounting policies or estimates and no major corrections of errors in prior periods.

SECTION XII
LIST OF DOCUMENTS FOR INSPECTION

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LIST OF DOCUMENTS FOR INSPECTION

I. Financial statements bearing seals and signatures of the legal representative, president, and financial controller.

II. Original of the audit report bearing common seal of the accounting firm and seals and signatures of CPAs.

III. Original of the Annual Report bearing the signature of Chairman of the Company.

IV. Originals of all documents and announcements disclosed by the Company on the *Shanghai Securities News*, *China Securities Journal* and *Securities Times* during the reporting period.

V. Articles of Association of Hua Xia Bank Co., Limited.

Annex 1: Audit Report (under PRC GAAP)
Annex 2: Audit Report (under IFRSs)

Chairman: Wu Jian
Board of Directors of Hua Xia Bank Co., Limited
24 March 2010

Appendix I: Domestic Auditor's Report

AUDITOR'S REPORT

J.D.T.H.SH.Z. (2010) No. 0532

To the shareholders of Hua Xia Bank Co., Limited

We have audited the financial statements of Hua Xia Bank Co., Limited (the "Bank"), which comprise the balance sheet as at 31 December 2009, the income statement, statement of cash flows and statement of changes in equity for the year then ended and notes to these financial statements.

I. Management's Responsibility for the Financial Statements

The Management of the Bank is responsible for the preparation of these financial statements in accordance with the Accounting Standard for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

II. Auditor's Responsibility

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

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

III. Opinion

In our opinion, the financial statements of the Bank comply with the requirements of the Accounting Standards for Business Enterprises and present fairly, in all material respects, the financial position of the Bank as at 31 December 2009 and the results of operations and the cash flows of the Bank for the year then ended.

Jingdu Tinwha Certified Public Accountants Co., Ltd.	Certified Public Accountants Registered in China
Beijing, China 24 March 2010	Certified Public Accountants Registered in China

BALANCE SHEET

Prepared by: Hua Xia Bank Co., Limited

In RMB

Item	Note	31 December 2009	31 December 2008
Assets:			
Cash on hand and balances with central banks	IV.1	91,071,727,975.04	126,433,352,681.84
Due from banks and other financial institutions	IV.2	9,473,615,449.39	6,744,270,266.41
Precious metal		532,884.62	9,499,910.26
Placements with banks and other financial institutions	IV.3	22,889,762,110.00	16,160,000,000.00
Trading financial assets	IV.4	765,724,114.14	4,817,684,347.61
Derivative financial assets	IV.5	24,215,651.59	443,130,737.17
Reverse repurchase agreements	IV.6	209,952,003,989.19	135,341,883,856.87
Interest receivable	IV.7	1,574,324,472.59	1,833,481,421.15
Loans and advances to customers	IV.8	419,452,246,994.81	345,667,973,916.52
Available-for-sale financial assets	IV.9	11,640,738,471.95	17,946,796,549.07
Investments classified as receivables	IV.10	1,280,000,000.00	
Held-to-maturity investments	IV.11	69,228,616,535.55	69,097,348,530.39
Long-term equity investments	IV.12	81,818,134.62	81,817,934.89
Investment-oriented real estate	IV.13	259,351,415.48	267,792,844.04
Fixed assets	IV.14	4,469,127,966.37	4,110,343,223.15
Deferred income tax assets	IV.15	1,343,513,860.52	1,042,650,630.73
Other assets	IV.16	1,949,112,355.95	1,639,159,646.98
Total assets		**845,456,432,381.81**	**731,637,186,497.08**

BALANCE SHEET (CONTINUED)

Prepared by: Hua Xia Bank Co., Limited

In RMB

Item	Note	31 December 2009	31 December 2008
Liabilities:			
Due to banks and other financial institutions	IV.18	82,255,990,275.64	87,014,157,041.08
Placements from banks and other financial institutions	IV.19	6,121,271,469.95	7,688,163,560.07
Trading financial liabilities	IV.20	496,000.00	
Derivative financial liabilities	IV.5	7,836,803.81	458,372,890.02
Repurchase agreements	IV.21	107,758,508,809.76	85,987,087,588.81
Deposits from customers	IV.22	581,678,387,707.05	485,349,576,757.88
Employees' remuneration payable	IV.23	1,129,894,677.60	975,774,103.90
Taxes payable	IV.24	1,988,600,746.09	1,403,358,241.70
Interest payable	IV.25	3,343,623,556.01	4,509,783,812.88
Projected liabilities	IV.26	54,703,964.66	61,876,900.00
Bonds payable	IV.27	23,870,000,000.00	23,870,000,000.00
Deferred income tax liabilities	IV.15	8,562,714.97	221,738,424.55
Other liabilities	IV.28	7,004,370,441.65	6,675,940,286.49
Total liabilities		**815,222,247,167.19**	**704,215,829,607.38**
Shareholders' equity			
Share capital	IV.29	4,990,528,316.00	4,990,528,316.00
Capital reserve	IV.30	14,356,639,570.50	14,655,269,410.18
Less: Shares in stock			
Surplus reserve	IV.31	1,783,349,016.71	1,407,326,332.14
General reserve	IV.32	6,988,533,664.52	5,406,956,315.68
Retained profit	IV.33	2,115,134,646.89	961,276,515.70
Total shareholders' equity		**30,234,185,214.62**	**27,421,356,889.70**
Total liabilities and shareholders' equity		**845,456,432,381.81**	**731,637,186,497.08**

Legal representative: President: Chief Financial Officer:

INCOME STATEMENT

Prepared by: Hua Xia Bank Co., Limited

In RMB

Item	Note	Year ended 31 December 2009	Year ended 31 December 2008
I. Operating income		**17,129,634,873.02**	**17,611,365,856.00**
Net interest income	IV.34	15,807,187,606.44	16,484,791,120.47
Interest income		32,506,467,609.37	37,394,720,327.34
Interest expense		16,699,280,002.93	20,909,929,206.87
Net fee and commission income	IV.36	1,024,434,531.36	822,799,697.54
Fee and commission income		1,303,901,402.45	1,063,495,557.00
Fee and commission expense		279,466,871.09	240,695,859.46
Investment income	IV.36	101,296,947.77	(43,279,988.35)
Income from changes in fair value	IV.37	(43,869,393.48)	67,658,230.79
Foreign exchange gains		127,317,825.26	135,930,299.69
Other operating income	IV.38	113,267,355.67	143,466,495.86
II. Operating expenses		**12,318,369,892.84**	**13,577,476,425.27**
Business tax and surcharges	IV.39	1,247,371,302.51	1,382,358,887.24
General and administrative expenses	IV.40	7,687,892,767.76	7,292,068,938.23
Impairment losses on assets	IV.41	3,377,016,000.91	4,894,309,282.58
Other operating costs		6,089,821.66	8,739,317.22
III. Operating profit		**4,811,264,980.18**	**4,033,889,430.73**
Add: Non-operating income	IV.42	52,016,907.51	23,245,410.64
Less: Non-operating expenses	IV.43	35,695,636.72	50,591,886.13
IV. Gross profit		**4,827,586,250.97**	**4,006,542,955.24**
Less: Income tax expense	IV.44	1,067,359,405.29	935,704,608.84
V. Net profit		**3,760,226,845.68**	**3,070,838,346.40**
VI. Earnings per share			
i. Basic earning per share	IV.45	0.7535	0.7036
ii. Diluted earning per share	IV.45	0.7535	0.7036
VII. Other comprehensive income	**IV.46**	**(298,629,839.68)**	**376,858,930.15**
VIII. Total comprehensive income		**3,461,597,006.00**	**3,447,697,276.55**

Legal representative: President: Chief Financial Officer:

STATEMENT OF CASH FLOWS

Prepared by: Hua Xia Bank Co., Limited

In RMB

Item	Note	Year ended 31 December 2009	Year ended 31 December 2008
I. Cash flows from operating activities			
Net increase in deposits from customers and due to banks and other financial institutions		91,570,644,183.73	74,201,666,748.19
Net increase in borrowing from central banks			
Net increase in placements from other financial institutions		40,393,139,679.02	
Interest, fee and commission income received		17,062,621,859.53	19,833,238,511.20
Other proceeds received related to operating activities		289,213,574.14	502,049,319.98
Sub-total of cash inflows from operating activities		108,922,479,617.40	134,930,094,258.39
Net increase in loans and advances to customers		76,847,521,434.19	69,205,880,432.02
Net increase in balances with central banks and due from banks and other financial institutions		12,328,474,973.73	6,906,361,757.10
Net increase in placements with other financial institutions		49,454,626,446.57	
Fee and commission expense paid		279,466,871.09	240,695,859.46
Cash paid to and for employees		3,278,110,468.04	3,272,476,228.26
Taxes and fees paid		2,205,490,016.60	2,434,902,026.35
Other cash paid related to operating activities		4,600,147,393.51	167,940,051.45
Sub-total of cash outflows from operating activities		148,993,837,603.73	82,228,256,354.64
Net cash flows from operating activities	IV.47	**(40,071,357,986.33)**	**52,701,837,903.75**
II. Cash flows from investing activities			
Proceeds from disposal of investments		685,936,378,060.99	888,057,437,661.77
Investment income received		117,112,907.77	2,705,212.89
Other proceeds received related to investing activities		9,533,030.63	117,776,503.71
Sub-total of cash inflows from investing activities		686,063,023,999.39	888,177,919,378.37
Acquisition of investments		676,077,580,197.61	910,009,361,805.22
Acquisition of fixed assets, intangible assets and other long-term assets		1,426,759,302.24	1,389,400,460.98
Other cash paid related to investing activities			
Sub-total of cash outflows from investing activities		677,504,339,499.85	911,398,762,266.20
Net cash flows from investing activities		8,558,684,499.54	(23,220,842,887.83)
III. Cash flows from financing activities			
Proceeds from investors			11,380,032,077.80
Proceeds from bonds issued			
Other proceeds received related to financing activities			
Sub-total of cash inflows from financing activities			11,380,032,077.80
Repayment of debts			
Dividend, profit or interest paid		664,938,681.08	453,560,000.00
Other cash paid related to financing activities		1,113,561,538.36	1,189,401,866.56
Sub-total of cash outflows from financing activities		1,778,500,219.44	1,642,961,866.56
Net cash flows from financing activities		**(1,778,500,219.44)**	**9,737,070,211.24**
IV. Effect of exchange rate changes on cash		**181,318.68**	**(7,416,852.48)**
V. Net increase in cash and cash equivalents		**(33,290,992,387.55)**	**39,210,648,374.68**
Add: Cash and cash equivalents at beginning of the year		**92,280,279,404.50**	**53,069,631,029.82**
VI. Cash and cash equivalents at end of the year	IV.47	**58,989,287,016.95**	**92,280,279,404.50**

Legal representative: President: Chief Financial Officer:

STATEMENT OF CHANGES IN EQUITY

Prepared by: Hua Xia Bank Co., Limited

In RMB

	Year ended 31 December 2009					
Item	Share capital	Capital reserve	Surplus reserve	General reserve	Retained profit	Total shareholders' equity
I. Balance as at 31 December 2008	4,990,528,316.00	14,655,269,410.18	1,407,326,332.14	5,406,956,315.68	961,276,515.70	27,421,356,889.70
Add: Changes in accounting policy						
Correction of previous errors						
Others						
II. Balance as at 1 January 2009	4,990,528,316.00	14,655,269,410.18	1,407,326,332.14	5,406,956,315.68	961,276,515.70	27,421,356,889.70
III. Changes during the year ("-" indicates decrease)		(298,629,839.68)	376,022,684.57	1,581,577,348.84	1,153,858,131.19	2,812,828,324.92
(I) Net profit					3,760,226,845.68	3,760,226,845.68
(II) Other comprehensive income		(298,629,839.68)				(298,629,839.68)
Sub-total of (I) and (II)		(298,629,839.68)			3,760,226,845.68	3,461,597,006.00
(III) Capital injection/reduction by shareholders						
1. Capital injection by shareholders						
2. Share payment recognized as shareholders' equity						
3. Others						
(IV) Profit distribution			376,022,684.57	1,581,577,348.84	(2,606,368,714.49)	(648,768,681.08)
1. Surplus reserve			376,022,684.57		(376,022,684.57)	
2. General reserve				1,581,577,348.84	(1,581,577,348.84)	
3. Distribution among shareholders					(648,768,681.08)	(648,768,681.08)
4. Others						
(V) Internal carry-over of shareholders' equity						
1. Conversion of capital reserve into share capital						
2. Conversion of surplus reserve into share capital						
3. Surplus reserve making up loss						
4. General reserve making up loss						
5. Others						
IV. Balance as at 31 December 2009	4,990,528,316.00	14,356,639,570.50	1,783,349,016.71	6,988,533,664.52	2,115,134,646.89	30,234,185,214.62

Legal representative: President: Chief Financial Officer:

STATEMENT OF CHANGES IN EQUITY

Prepared by: Hua Xia Bank Co., Limited

In RMB

Item	Year ended 31 December 2008					
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained profit	Total shareholders' equity
I. Balance as at 31 December 2007	4,200,000,000.00	3,688,906,718.23	1,100,242,497.50	3,326,000,000.00	740,478,319.62	13,055,627,535.35
Add: Changes in accounting policy						
Correction of previous errors						
Others						
II. Balance as at 1 January 2008	4,200,000,000.00	3,688,906,718.23	1,100,242,497.50	3,326,000,000.00	740,478,319.62	13,055,627,535.35
III. Changes during the year ("-" indicates decrease)	790,528,316.00	10,966,362,691.95	307,083,834.64	2,080,956,315.68	220,798,196.08	14,365,729,354.35
(I) Net profit					3,070,838,346.40	3,070,838,346.40
(II) Other comprehensive income		376,858,930.15				376,858,930.15
Sub-total of (I) and (II)		376,858,930.15			3,070,838,346.40	3,447,697,276.55
(III) Capital injection/reduction by shareholders	790,528,316.00	10,589,503,761.80				11,380,032,077.80
1. Capital injection by shareholders	790,528,316.00	10,589,503,761.80				11,380,032,077.80
2. Share payment recognized as shareholders' equity						
3. Others						
(IV) Profit distribution			307,083,834.64	2,080,956,315.68	(2,850,040,150.32)	(462,000,000.00)
1. Surplus reserve			307,083,834.64		(307,083,834.64)	
2. General reserve				2,080,956,315.68	(2,080,956,315.68)	
3. Distribution among shareholders					(462,000,000.00)	(462,000,000.00)
4. Others						
(V) Internal carry-over of shareholders' equity						
1. Conversion of capital reserve into share capital						
2. Conversion of surplus reserve into share capital						
3. Surplus reserve making up loss						
4. General reserve making up loss						
5. Others						
IV. Balance as at 31 December 2008	4,990,528,316.00	14,655,269,410.18	1,407,326,332.14	5,406,956,315.68	961,276,515.70	27,421,356,889.70

Legal representative: President: Chief Financial Officer:

NOTES TO FINANCIAL STATEMENTS

I. Basic Information of the Company

Hua Xia Bank Co., Limited (hereinafter referred to as the "Company"), formerly known as Hua Xia Bank, was a national commercial bank funded and incorporated by Shougang Corporation on October 14, 1992, under the approval of the People's Republic of China ("PBOC") with the Y.F. (1992) No. 391 Document. On April 10, 1996, the PBOC released the Reply on Approving Hua Xia Bank to Change Registered Capital and Ratifying the 'Articles of Association of Hua Xia Bank Co., Limited' [Y.F.(1996) No.109], approving Hua Xia Bank to be restructured to limited liability company in the form of sponsorship. On March 18, 1998, the Company obtained the Business License for Enterprises as a Legal Person (Registration No. 1000001002967) issued by the State Administration for Industry and Commerce and the License for Financial Enterprises as a Legal Person (No. B10811000H000) issued by the PBOC. The Company was founded under the co-sponsorship of 33 business entities, with the registered capital of RMB2.5 billion. CCB Certified Public Accountants verified the Company's registered capital on March 13, 1996 with issuing the J.Y.Y.Z (96) No. 2 Capital Verification Report.

On July 21, 2003, under the approval of [Z.J.F.H.Z.(2003) No. 83] Document issued by China Securities Regulatory Commission ("CSRC"), the Company offered 1 billion RMB common shares (A share) to the public, with the par value of RMB1.00 and issue price of RMB5.60 per share. After deducting public offering expenses and adding interest income from financing, RMB5.46 billion of net cash was raised in total. The above shares were listed in the Shanghai Stock Exchange on September 12, 2003. The altered registered capital was RMB3.5 billion, which was verified by Jingdu Tinwha Certified Public Accountants Co., Ltd on September 5, 2003, with issuing the [Beijing Jingdu Y.Z. (2003) No. 0036] Capital Verification Report.

According to the provisions in the revised Articles of Association and the resolution of the Company's Annual General Meeting for 2003 held on April 28, 2004, 700 million shares of capital were converted from capital reserve by the Company pursuant to the ratio of every 10 share converting to 2 shares and based on 3.5 billion shares at the end of 2003. The altered registered capital was RMB4.2 billion, which was verified by Jingdu Tinwha Certified Public Accountants Co., Ltd on May 26, 2004, with issuing the [Beijing Jingdu Y.Z. (2004) No. 0017] Capital Verification Report.

On June 6, 2006, the Company completed its equity division reform. In which, the consideration arrangement was that, holders of non-tradable shares would pay shares to all holders of tradable shares who had been registered on the Record Day when the equity plan was executed, and the latter would be paid 3 shares for every 10 tradable shares. The number of shares paid by holders of non-tradable shares was determined by the proportion of non-tradable shares they held. After the consideration arrangement was implemented, the original non-tradable shares held by holders of non-tradable shares were converted to restricted shares, and the total shares paid to holders of tradable shares amounted to 360 million.

According to the First Interim Shareholders' Meeting for 2008, and approved by the [Z.J.F.H.Z.(2008) No. 1042] Document issued by CSRC, the Company privately offered 790,528,316 shares, in which, Shougang Corporation subscribed for 269,634,462 shares, State Grid Corporation of China purchased 253,520,393 shares, and Deutsche Bank acquired 267,373,461 shares. The registered capital was changed to RMB4,990,528,316, which was verified by Jingdu Tinwha Certified Public Accountants Co., Ltd on October 16, 2008, with issuing the [Beijing Jingdu Y.Z. (2008) No. 0085] Capital Verification Report.

The Company established a corporate governance structure consisting of the General Meeting of Shareholders, the Board of Directors and the Board of Supervisors, and relevant departments were also set up, including Credit Risk Management Department, SME Credit Department, Asset Custody Department, Treasury Department, Investment Banking Department, International Business Department, Corporate Banking Department, Personal Banking Department, Planning and Finance

Department, Audit Department and Human Resources Department.

As at December 31, 2009, except the Head Office, the company had Beijing Branch, Nanjing Branch, Hangzhou Branch, Shanghai Branch, Jinan Branch, Kunming Branch, Shenzhen Branch, Shenyang Branch, Guangzhou Branch, Wuhan Branch, Chongqing Branch, Chengdu Branch, Xi'an Branch, Urumqi Branch, Taiyuan Branch, Dalian Branch, Qingdao Branch, Wenzhou Branch, Shijiazhuang Branch, Tianjin Branch, Hohhot Branch, Fuzhou Branch, Ningbo Branch, Shaoxing Branch, Nanning Branch, Changzhou Branch, Suzhou Branch, Branch Wuxi and Zhenjiang Branch. Besides, the Company also established Yantai Intercity Sub-branch, Liaocheng Intercity Sub-branch and Yuxi Intercity Sub-branch. A total of 349 business institutions were subordinate to the Company.

The scope of business specified in the Company's business licence includes: deposit taking; granting of short, medium and long-term loans; domestic and international settlement; bill acceptance and bill discount; issuance of financial bonds; issuance, encashment and underwriting of government bonds as an agent; trading of government bonds and financial bonds; inter-bank lending and borrowing; trading of foreign exchange on its own behalf and as an agent; bank card service; provision of letter of credit and letter of guarantee; collection and payment service as an agent; safety box service; foreign exchange settlement and sale; concurrent-business insurance agency; and other services approved by China Banking Regulatory Commission.

II. Significant Accounting Policies, Accounting Estimates and Prior-period Errors

1. Basis of preparation of financial statements

The financial statements are prepared in accordance with the Accounting Standards for Enterprises – Basic Standards issued by the Ministry of Finance in February 2006, 38 specific accounting standards and corresponding guidelines and interpretation as well as other related regulations (collectively referred to as the "Accounting Standards for Enterprises").

The financial statements are presented based on going concern.

2. Statement on compliance with accounting standards for enterprises

The financial statements for the year ended December 31, 2009 truly and fairly represent the financial position of the Company as at December 31, 2009, the operating results and cash flows for 2009 in compliance with the Accounting Standards for Business Enterprises.

3. Accounting period

The accounting period of the Company begins on January 1 and ends on December 31 of the Gregorian calendar.

4. Bookkeeping base currency

The Company uses RMB as its bookkeeping base currency.

5. Recognition of cash equivalents

Cash equivalents refer to short-term and highly liquid investments held by the Company which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

6. Foreign currency transactions

The foreign currency transactions of the Company are translated to the amount in its bookkeeping base currency pursuant to the spot exchange rate on the transaction date.

Foreign currency monetary items are translated at the spot exchange rate on the balance sheet date at the end of accounting period. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and that at the time of initial recognition or prior to the balance sheet date is recorded in the profit or loss at the current period; the foreign currency non-monetary items measured at the historical cost are still translated at the spot exchange rate on the transaction date; the foreign currency non-monetary items measured at the fair value are translated at the spot exchange rate on the date of determining fair value, and the balance between the translated amounts in the bookkeeping base currency and the amounts in the original bookkeeping base currency is recorded in the profit or loss at the current period.

7. Financial instruments

Financial instruments refer to the contracts under which financial assets of an enterprise are formed and financial liability or equity instruments of any other entity are formed.

(1) Recognition and derecognition of financial instruments

When the Company becomes a party to a financial instrument contract, a financial asset or financial liability will be recognized.

Where a financial asset meets any of the following conditions, it will be derecognized:

① Where the contractual rights for collecting cash flows of the said financial asset are terminated; or

② Where the said financial asset has been transferred and meets the conditions of derecognizing financial assets for the transfer of financial assets.

When all or part of existing obligations of a financial liability is relieved, the all or part of the financial liability will be derecognized.

(2) Classification and measurement of financial assets

The Company classifies financial assets into four categories in the initial recognition: financial assets measured at fair value and which change of value is recorded in current profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assists are measured at fair value in the initial recognition. For financial assets and liabilities measured at fair value and which change of value is recorded in the profit or loss of current period, the transaction costs thereof are directly recorded in the profit or loss of current period; for other categories of financial assets and liabilities, the transaction expenses thereof are included in the initially recognized value.

Financial assets measured at fair value and which change of value is recorded in current profit or loss.

Financial assets measured at fair value and which change of value is recorded in current profit or loss, include transactional financial assets and those in the initial recognition as financial assets measured at fair value and which change of value is included in current profit or loss in the initial recognition;

Transactional financial assets include those acquired for sale in a short term as well as derivative financial instruments. Such financial assets are subsequently measured at fair value, and all realized and unrealized profit or loss is recorded in current profit or loss.

Only when one of the following conditions is met, can financial assets or liabilities in the initial measurement be designated as those measured at fair value and which change of value is recorded in the profit or loss:

A. The designation can eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from different measurement basis of financial assets or liabilities;

B. The official written documents on risk management or investment strategies have indicated that the said financial asset portfolio, financial liability portfolio, or the portfolio of said financial assets and liabilities will be managed and evaluated on the basis of fair value and be reported to key management personnel.

C. The said financial asset or liability includes embedded derivative instruments that should be split separately.

Held-to-maturity investments

Held-to-maturity investments refer to non-derivative financial assets that have a fixed maturity, fixed or determinable recoverable amount and the Company has clear intent and ability to hold to maturity. Such financial assets are subsequently measured at amortized cost based on effective interest method, and the gains or losses arising from derecognition, impairment or amortization is recorded in current profit or loss.

Loans and receivables

Loans and receivables refer to non-derivative financial assets with fixed or determinable recoverable amounts that are not quoted in an active market. Such financial assets are subsequently measured at amortized cost based on effective interest method, and the gains or losses arising from derecognition, impairment or amortization is recorded in current profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets refer to non-derivative financial assets which are designated for sale in the initial recognition as well as the financial assets other than those as described above. Such financial assets are subsequently measured at fair value. Their discounts or premiums are amortized based on effective interest method and recognized as interest income. Except impairment losses and exchange difference of foreign currency monetary financial assets are recorded in current profit or a loss, the change of fair value of available-for-sale financial assets is separately recognized as capital reserve. When such financial assets are derecognized or impaired, the accumulated gains or losses recognized in the capital reserve before that are charged to current profit or losses. The dividends or interest income relating to available-for-sale financial assets are recorded in current profit or loss.

Investments in equity instruments without quotation in an active market which fair value cannot be measured on a reliable basis are measured at cost.

(3) Classification and measurement of financial liabilities

The Company classifies financial liabilities into two categories in the initial recognition: financial liabilities measured at fair value and which change of value is recorded in current profit or loss, and other financial liabilities. For financial liabilities not classified as the first category, related transaction costs are recorded in the initially recognized value.

Financial liabilities measured at fair value and which change of value is recorded in current profit or loss

Financial liabilities measured at fair value and which change of value is recorded in current profit or loss, include transactional financial liabilities and those designated in the initial recognition as financial liabilities measured at fair value and which change of value is recorded in current profit or loss. Such financial liabilities are subsequently measured at fair value, and all realized and unrealized profit or loss are included in current profit or loss.

Other financial liabilities

Subsequent measurement is made at amortized cost based on effective interest method.

(4) Derivative financial Instruments

The derivative financial instruments used by the Company include adoption of futures contracts to reduce risks arising from operating activities. Derivative financial instruments are initially measured at the fair value on the date of execution of derivative transaction contract, and subsequently measured at fair value. A derivative financial instrument with positive fair value is recognized as an asset, and that with negative fair value is recognized as a liability.

All gains or losses arising from change of fair value which are inconformity with hedge accounting requirements are directly charged to current profit or loss.

(5) Fair value of financial instruments

When the Company initially recognize financial assets and liabilities, they should be measured at fair value. The initially recognized fair value of financial instruments usually refers to transaction price (i.e. the fair value of the consideration received or paid). However, if the fair value of the consideration received or paid is not for the said financial instrument, the fair value of such financial instrument should be estimated based on valuation techniques. Valuation techniques include reference to the prices recently used in market transactions between knowledgeable and voluntary parties, reference to current fair value of substantially same financial instruments, discounted cash flow method and option pricing model.

(6) Impairment of financial assets

The Company carries out an inspection on the book value of financial assets on the balance sheet date. If there is objective evidence proving that the financial assets are impaired, provisions for impairment will be set aside. Objective evidence proving that financial assets are impaired refer to the actually occurred events which, after the financial assets are initially recognized, have an impact on the estimated future cash flows of the said financial assets that can be reliably measured by the Company.

Financial assets measured at amortized costs

If there is objective evidence proving an financial asset is impaired, its book value will be written down to the present value of estimated future cash flows (excluding future credit losses that haven't incurred), and the reduced amount will be recorded in current profit or loss. The present value of estimated future cash flows is determined at a discount rate according to the original actual interest rate of the financial asset, and the value of relevant collaterals is taken into account.

Impairment test will be made to the financial assets with significant single amounts. If any objective evidence shows that it has been impaired, the impairment loss will be recognized and recorded in current profit or loss. With regard to the financial assets with insignificant single amounts, impairment test will also be made to financial asset portfolio with similar credit risk features. Where, upon independent test, financial assets (including financial assets with significant or insignificant single amounts) have not been impaired, impairment test will also be made to financial asset portfolio with similar credit risk features. For financial assets which have been recognized with impairment loss in single amount, impairment test will not be made to financial asset portfolio with similar credit risk features.

After a financial asset measured at amortized cost is recognized with impairment loss by the Company, if there is any objective evidence proving that its value has been recovered, and it is objectively related to the event occurring after such loss is recognized, the impairment loss as originally recognized will be reversed and recorded in current profit or loss. However, the reversed book value will not be more than the amortized cost of the financial asset on the date of reverse under the assumption that no provision for impairment is withdrawn.

Available-for-sale financial assets

If there is evidence proving that such financial assets are impaired, the accumulated losses arising from the decline of fair value that have been directly included in capital reserve will be transferred out and recorded in current profit or loss. The transferred out accumulated losses are the balance after the initial acquisition cost of available-for-sale financial assets subtracts recovered principal, amortized amount, current fair value, and impairment loss originally recorded in profit or loss.

As for available-for-sale debt instruments which have been recognized with impairment losses, if, within the accounting period thereafter, the fair value rises and is objectively in connection with the subsequent events occurring after the original impairment losses are recognized, the originally recognized impairment losses will be reversed and recorded in current profit or loss. The impairment losses of investments in available-for-sale equity instruments will not be reversed from profit or loss.

Financial assets measured at cost

If there is objective evidence proving that the financial assets have been impaired, the difference between the book value of financial assets and present value determined by discounting future cash flows pursuant to current market rate of return for similar financial assets will be recognized as impairment loss and recorded in current profit or loss. The recognized impairment losses will not be reversed.

(7) Transfer of financial assets

Transfer of financial assets refer to that a financial asset is transferred or delivered to a party other than the issuer of financial asset (the transferee).

Where the Company has transferred nearly all of the risks and returns in connection with the ownership of financial assets to transferee, it will derecognize the financial assets. If the Company retains nearly all of the risks and returns in connection with the ownership of financial assets, it will not derecognize the financial assets.

Where the Company neither transfer nor retain nearly all of the risks and returns in connection with the ownership of financial assets, the financial assets will be dealt with according to the following circumstances: if the Company gives up its control over the financial assets, it will derecognize the financial assets and recognize the assets and liabilities generated thereof; If the Company retains its control over the financial assets, it will, to the extent of its continuous involvement in the transferred financial assets, recognize related financial assets and liabilities accordingly.

8. Asset transfer with repurchase conditions

(1) Reverse repurchase of financial assets

Financial assets which will be resold in a future certain date pursuant to the commitments in the agreement are not recognized in the balance sheet. Costs (interests) paid for the purchase of such assets are presented as reverse repurchase of financial assets in the balance sheet. The difference between purchase price and resale price is recognized as interest income based on effective interest method within the term of agreement.

(2) Financial assets sold for repurchase

Financial assets which have been sold and will be repurchased in a future certain date pursuant to the commitments in the agreement are not derecognized in the balance sheet. Proceeds (interests) from the sale of such assets are presented as financial assets sold for repurchase in the balance sheet. The difference between sale price and repurchase price is recognized as interest expense based on effective interest method within the term of agreement.

9. Investment real estate

Investment real estate refers to the real estate held for generating rent and/or capital appreciation. The investment real estate of the Company includes leased land use rights, land use rights held for transfer after appreciation and leased buildings.

The investment real estate of the Company is initially measured at the cost on the acquisition date and subsequently measured based on costing mode. In the meantime, depreciation is set aside on schedule according to relevant regulations on fixed assets. See Notes II. 14, for the methods of recognizing impairment of assets.

10. Fixed assets and accumulated depreciation

(1) Recognition of fixed assets

The fixed assets of the Company refer to tangible assets held for the production of commodities, rendering of labour service, lease or operating management which useful life exceeds one accounting year.

Only when economic interests in connection with the fixed assets are likely to flow into the Company and the costs of fixed assets can be measured on a reliable basis, can the fixed assets be recognized.

The fixed assets of the Company are initially measured at the actual costs on the acquisition date.

(2) Deprecation methods for various fixed assets

The Company sets aside depreciation based on straight line method. Depreciation starts when a fixed asset reaches its scheduled usable condition, and depreciation ends when a fixed asset is derecognized or classified as held-for-sale non-current assets. Disregarding provisions for impairment, the annual depreciation rates of the Company are determined as follows according to the category of fixed assets, estimated useful life and estimated residual value:

Category	Useful life (year)	Residual value rate(%)	Annual depreciation rate
Buildings and structures	5-40	5	19-2.38
Office equipment	5-12	5	19-7.92
Transport equipment	5-10	5	19-9.50

If provisions for impairment of fixed assets have been set aside, depreciation rates should be calculated and determined by deducting the accumulated provisions for impairment of such fixed assets.

(3) See Notes II. 14. for impairment test methods and methods of setting aside provisions for impairment of fixed assets.

(4) Recognition basis and valuation methods for fixed assets under finance lease

For fixed assets under finance lease, if the Company can reasonably determine that the ownership of leased assets will be obtained after lease term expires, depreciation will be set aside in the remaining useful life of leased assets, if not, deprecation will be set aside in either the lease term or remaining useful life of leased assets, which is shorter.

(5) At the end of every accounting year, the Company reviews the useful life, estimated residual value and depreciation methods for fixed assets.

If difference occurs between estimated useful life and previous estimates, the useful life of such fixed assets will be adjusted; and the same will apply to the difference between estimated net residual value and previous estimates.

11. Construction in Progress

The costs of construction in process of the Company are recognized pursuant to actual project expenditures, including various necessary project expenditures during the construction, borrowings that should be capitalized before the project reaches scheduled usable condition and other pertinent expenses.

Construction in progress is converted into fixed assets when it reaches scheduled usable condition.

See Notes II. 14. for the methods of recognizing impairment of construction in progress.

12. Pending Debt Assets

Debt assets are recognized at fair value on the acquisition date. Unpaid taxes on debt assets for acquiring them, advanced litigation costs and related taxes paid for acquiring debt assets are included in the value of debt assets.

When the Company disposes of debt assets, the difference between disposal income and book value of debt assets is recoded in non-operating income provided the former is more than the latter; otherwise, the difference is charged to non-operating expenses. Expenses incurred during the custody is directly included in other business expenses, and that incurred during the process of disposal is offset from disposal income.

The Company checks debt assets one by one at the end of accounting period, and valuate them at the lower of book value or recoverable amount. The provisions for impairment of debt assets are set aside when recoverable amount is lower than book value.

13. Amortization of long-term unamortized expenses

The long-term unamortized expenses of the Company are measured at actual costs and amortized on an even basis pursuant to estimated benefit period. Amortized values of long-term unamortized expenses that cannot benefit the following accounting periods are included in current profit or loss.

14. Impairment of assets

The Company recognizes the impairment of assets excluding pending debt assets, deferred income tax assets and financial assets according to the following methods:

The Company judges whether assets are impaired on the balance sheet date. If impaired, the Company will estimate recoverable amounts and conduct impairment test.

Recoverable amounts are determined according to the higher of net value after deducting disposal expenses from fair value of assets or present value of estimated future cash flows of assets. The Company estimates recoverable amounts based on single assets. If it is hard to estimate recoverable amount of a single asset, that of asset group where the single asset belongs to will be measured. The recognition of an asset group is based on whether major cash inflows generated by the asset group are independent of cash inflows of other assets or asset groups.

When the recoverable amount of an asset or asset group is less than its book value, the Company writes down the book value to the recoverable amount. The written-down amount s recorded in current profit or loss, and provisions for impairment of assets are set aside accordingly.

The impairment loss of an asset will not be reversed in the subsequent accounting periods once it is recognized.

15. Estimated liabilities

If an obligation in connection with contingencies meets the following conditions, the Company will recognize it as an estimated liability:

① The obligation is a current obligation of the Company;

② The performance of the obligation is likely to result in economic interest outflows of the Company; and

③ The amount of the obligation can be measured on a reliable basis.

Where all or part expenses paid for the liquidation of recognized estimated liabilities are expected to be compensated by the third party of other parties, the compensation can only be recognized as an separate asset when it is determined as recoverable. The recognized compensation should not be more than the book value of recognized liabilities.

16. Bonds payable

(1) Valuation of bonds payable

When bonds are issued by the Company, they are measured at actual total issue price.

(2) Amortization of bond premium or discount

The difference between total issue price and total par value of bonds is recognized as bond premium or discount and amortized based on effective interest method when interest is accrued during the period of existence of bonds.

17. Recognition of revenues

The Company recognizes revenues when the inflows and receipts of relevant economic benefits can be measured on a reliable basis.

(1) Interest income

Interest income is recognized accordingly based on effective interest method.

(2) Fee and commission income

Fee and commission income are recognized on an accrual basis when related services are rendered.

18. Recognition of expenses

Interest expense and other expenses are recognized on an accrual basis.

19. Income tax

Income tax includes current income tax and deferred income tax. Deferred income tax in connection with transactions or events which are directly included in the owners' equity should be recoded in the owners' equity, otherwise, they should be recognized as income tax expenses and recorded in current profit or loss.

Current income tax is the current income tax payable calculated pursuant to current taxable income. Taxable income is calculated after corresponding adjustments are made to profit before tax of the year according to relevant tax regulations.

The Company measures income tax liabilities or assets of current and previous periods pursuant to estimated income tax payable or refundable that is calculated according to relevant tax regulations.

The Company calculates deferred income tax based on income sheet liability method pursuant to temporary difference between the book value of assets and liabilities on the balance sheet date and tax base.

For temporary difference of various tax payables, related deferred income tax liabilities should be recognized.

For deductible temporary difference, deductible losses that could be carried forward to the following years and tax credits, the Company recognizes the resulting deferred income tax assets pursuant to future taxable income that is very likely to be obtained by the Company to offset deductible temporary difference, deductible losses and tax credits.

On the balance sheet date, the Company measures deferred tax assets and liabilities pursuant to applicable tax rates in the period during which the assets are expected to be recovered or liabilities be liquidated, and in the meantime, the impact of ways of recovering assets or liquidating liabilities on the balance sheet date on income tax is reflected.

On the balance sheet date, the Company checks the book value of deferred income tax assets. If the Company is unlikely to obtain enough taxable income to offset the interests of deferred income tax assets in a future period, the book value of deferred income tax assets will be written down. When it is likely to obtain enough taxable income, the written-down amount will be reversed.

20. Lease

The Company recognizes the lease that substantially transfers all risks and returns in connection with ownership of assets. Leases other than finance lease are recognized as operating lease.

On the commencement date of lease term, the Company recognizes the lower of fair value of leased assets or present value of minimum lease payment on the commencement date of lease term as recording value of leased assets, the minimum lease payment as recording value of long-term account payable, and the balance between recording value of leased assets and that of long-term account payable as unrecognized financing cost.

Rents for operating lease are recorded in related asset costs or current profit or loss in different lease terms based on straight-line method.

21. Held-for-sale assets

(1) Held-for-sale fixed assets

Fixed assets that meet the following conditions are classified as held-for-sale assets: (1) the Company has made a resolution on disposing of such fixed assets; (2) the Company has signed an irrevocable transfer agreement with transferee; and, (3) the transfer could be completed in one year.

Held-for-sale fixed assets include single asset and disposal group. In certain circumstances, disposal group includes goodwill obtained in the business merger.

Held-for-sale fixed assets, for which depreciation will not be set aside, are measured at the lower net amount of deducting disposal expenses from book value or fair value.

If an asset or disposal group which has been classified as held-for-sale assets cannot meet the recognition conditions for held-for-sale fixed assets on a future date, the Company will remove it from the category of held-for-sale fixed assets and measure it at the lower amount as follows:

① the balance of adjusting the book value of the asset or deposal group before it is classified as held-for-sale fixed assets pursuant to the depreciation, amortization or impairment that should be recognized on the assumption that the asset or deposal group is not classified as held-for-sale fixed assets; or

② the recovered amount on the date that the Company decides not to sell the asset or disposal group.

(2) Other non-current assets including intangible assets that meet the held-for-sale conditions are treated according to the above-mentioned principles.

22. Employees' compensation

Employees' salary, bonus, allowance, subsidy, welfare benefit, social insurance and housing provident fund are recognized in the accounting period during which employees render services. If employees' compensation becomes due more than one year after the balance sheet date, and the discounted amount is significant, the present value will be presented.

If the Company's employees participate in the pension insurance program managed by local governments, the pension insurance is recorded in current profit or loss on the incurrence date.

23. Entrustment business

The entrustment business of the Company includes entrusted loans and investments. Entrusted loans refer to that, the principal provides loan funds, and loans are granted, used under supervision and recovered under assistance on commission basis according to prospective borrower, purpose, term and interest rate determined by the principal. Entrusted investments refer to that, the principal provides loan funds, and the Company makes independent investment decisions and invest on behalf of principal within the specified range during the period of entrustment. All risks, profit or loss and liabilities arising from entrustment business are undertaken by the principal, and the Company only charges service fee. The balance between assets and liabilities formed from entrusted loans and investments are presented on the balance sheet.

24. Preparation of consolidated financial statements

The consolidated financial statements of the Company are prepared based on the financial statements and other documents of the Head Office, branches and directly affiliated (intercity) subbranches. In the consolidation, internal significant transactions and balance of the Company have been offset.

25. Annuity program of the company

The enterprise annuity program established by the Company for employees refers to the supplementary pension system established by the Company based on its participation in the basic pension insurance system according to law as well as in accordance with relevant regulations of the state and business development of the Company, to provide a certain degree of income security for its employees after their retirement. The enterprise annuity program is applicable to registered employees who have signed formal labour contracts with the Company after probation period. The expenses incurred by the Company for annuity program are recorded in current profit or loss. Except that, the Company has no other major social security commitments to employees.

26. Significant accounting judgments and estimates

The Company evaluates significant accounting estimates and key assumptions adopted on an ongoing basis based on historical experience and other factors, including reasonable expectations on future events.

Significant accounting estimates and key assumptions which may cause the risk of significant adjustments to book value of assets and liabilities in the next accounting year are presented below.

Classification of financial assets

The Company is required to make significant judgements on the classification of financial assets, as different classification approaches may affect accounting method and financial position of the Company.

Impairment losses on loans

If there is objective evidence proving a loan is impaired, its book value will be written down to the present value of estimated future cash flows (excluding future credit losses that haven't incurred), and the reduced amount will be recorded in current profit or loss. The present value of estimated future cash flows is determined at a discount rate according to the original actual interest rate of the loan, and the value of relevant collaterals is taken into account. In the estimation of impairment losses, significant judgments on whether there is objective evidence proving a loan has been impaired should be made, and significant estimates on present value of estimated future cash flows should be conducted.

Fair value of financial instruments

If a financial instrument does not exist in the active market, the Company will apply valuation techniques to recognize its fair value. Valuation techniques include reference to the prices recently used in market transactions between knowledgeable and voluntary parties, reference to current fair value of other financial instruments which are substantially the same, discounted cash flow method and option pricing model. When market information is unavailable, the Management will estimate the credit risks; market volatility and relevancy of the Company and counterparties. The change of these relevant assumptions will affect the fair value of financial instruments.

Deferred income tax assets

To the limit that it is very likely to have enough taxable income to offset losses, all unused tax losses should be recognized as deferred income tax assets. Therefore, lots of judgments should be used by the Management to estimate the incurrence time and amount of future taxable income, to recognize the amount of deferred income tax assets.

27. Change of significant accounting policies and estimates

(1) Change of accounting policies

Are the significant accounting policies in the report period changed? No.

(2) Change of accounting estimates

Are the significant accounting estimates in the report period changed? No.

28. Correction of prior-period accounting errors

(1) Retrospective restatement method

Are prior-period accounting errors using retrospective restatement method in the reporting period found? No.

(2) Prospective application method

Are prior-period accounting errors using prospective application method in the reporting period found? No.

III. Taxes

Tax item	Tax base	Statutory tax rate
BusinW	Taxable business income	5%
	5% of business tax (limited to Shenzhen)	1%
Urban maintenance and construction tax	5% of business tax (areas excluding Shenzhen)	7%
Corporate income tax	Taxable income	25%

According to the Circular of the State Council on Implementing Preferential Policies on the Transition of Corporate Income Tax (G.F. [2007] No. 39) issued by the State Council, Shenzhen Branch affiliated to the Company has carried out a plan of transitioning to statutory tax rate in five years step by step since the execution of Corporate Income Tax Law of the People's Republic of China on January 1, 2008, that is, applying 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012.

IV. Notes to Major Items of Financial Statements

1. Cash on hand and balances with central banks

Item	31 December 2009	31 December 2008
Cash on hand	1,823,537,617.54	1,589,095,851.79
Legal reserves with central banks	64,445,818,517.48	52,117,343,543.75
Excess required reserves with central banks	24,730,809,840.02	72,699,783,286.30
Other balances with central banks	71,562,000.00	27,130,000.00
Total	**91,071,727,975.04**	**126,433,352,681.84**

(1) The Company deposits legal reserves for general deposits with the People's Bank of China as regulated. Reserves are made for various deposits including deposits of organizations, ex budgetary deposits, personal deposits and deposits of units. The percentages for depositing are specified below:

Item	31 December 2009	31 December 2008
RMB	13.50%	13.50%
Foreign currency	5.00%	5.00%

(2) Excess required reserves with central banks include excess required reserves and other balances and refers to various funds that are deposited by the Company with central banks to guarantee normal withdrawal of deposits and normal operation of businesses but excluding those special-purpose funds such as required reserves.

2. Due from banks and other financial institutions

Item	31 December 2009	31 December 2008
Due from domestic banks and other financial institutions	6,916,366,068.51	3,862,586,115.77
Due from foreign banks and other financial institutions	2,562,749,380.88	2,887,184,150.64
Less: Reserves for bad debts	5,500,000.00	5,500,000.00
Book value of due from banks and other financial institutions	**9,473,615,449.39**	**6,744,270,266.41**

3. Placements with banks and other financial institutions

Item	31 December 2009	31 December 2008
Placements with domestic banks and other financial institutions	22,900,762,110.00	16,171,000,000.00
Placements with domestic non-banking financial institutions	121,912,125.53	132,876,680.45
Placements with foreign banks	–	–
Placements with foreign non-banking financial institutions	–	–
Less: Loss reserves	132,912,125.53	143,876,680.45
Book value of placements	**22,889,762,110.00**	**16,160,000,000.00**

4. Trading financial assets

Item	31 December 2009	31 December 2008
Trading bonds	765,724,114.14	4,817,684,347.61

The Management of the Company deems that there is no material limit upon investment of trading financial assets.

5. Derivative financial instruments

Contracted nominal amount and fair value of derivative financial instruments held by the Company are presented below:

Item	Non-hedging instruments as at 31 December 2009 Nominal amount	Fair value Assets	Liabilities
Interest rate swap	73,587,295.60	–	6,304,871.31
Currency swap	1,092,186,235.98	–	1,531,932.50
Non-delivery spot foreign exchange contract	10,229,935,100.98	45,280.50	–
Forward agreement	5,036,396,828.16	17,865,499.78	–
Interest rate option	73,587,295.60	6,304,871.31	–
Total		**24,215,651.59**	**7,836,803.81**

Item	Non-hedging instruments as at 31 December 2008 Nominal amount	Fair value Assets	Liabilities
Interest rate swap	6,667,377,527.50	–	440,636,932.14
Currency swap	5,418,414,142.50	–	17,735,957.88
Non-delivery spot foreign exchange contract	9,671,143,682.90	1,590,935.90	–
Forward agreement	803,257,642.14	902,869.13	–
Interest rate option	6,667,377,527.50	440,636,932.14	–
Total		**443,130,737.17**	**458,372,890.02**

(1) Nominal amount refers to the unfinished trade volume on the balance sheet date instead of the risk amount. Fair value refers to the amount of asset exchange or liability solvency conducted by the parties concerned that are familiar with the conditions in fair trade.

(2) The Company manages assets and liabilities with derivative financial instruments. For example, the Company mitigates the risks as a result of interest rate movements effectively by means of interest rate swap with respect to the structured deposits.

6. Reverse repurchase agreements

Item	31 December 2009	31 December 2008
Bonds	12,150,000,000.00	25,047,000,000.00
Of which: Government bonds	3,200,000,000.00	9,590,000,000.00
Central bank bills	3,350,000,000.00	11,167,000,000.00
Financial bonds	5,600,000,000.00	4,290,000,000.00
Bills	197,802,003,989.19	110,294,883,856.87
Of which: Banker's acceptance bills	186,242,201,582.96	102,320,807,866.66
Commercial acceptance bills	11,559,802,406.23	7,974,075,990.21
Credit assets	–	–
Less: Reserves for bad debts	–	–
Book value of reverse repurchase agreements	**209,952,003,989.19**	**135,341,883,856.87**

7. Interest receivable

(1) By aging

Aging	31 December 2009 Amount	Percentage	31 December 2008 Amount	Percentage
Less than one year	1,574,324,472.59	100%	1,833,481,421.15	100%
One to two years	–	–	–	–
Two to three years	–	–	–	–
Over three years	–	–	–	–
Book value of interest payable	**1,574,324,472.59**	**100%**	**1,833,481,421.15**	**100%**

(2) By content

Item	31 December 2009	31 December 2008
Interest receivable on loans	32,728,228.34	21,872,053.32
Interest receivable on placements with banks and other financial institutions	3,143,916.38	63,626,569.75
Interest receivable on bonds	855,846,265.23	966,169,651.78
Interest receivable on purchase of resold bills	682,212,884.57	755,129,097.66
Interest receivable on purchase of resold bonds	393,178.07	26,684,048.64
Book value of interest receivable	**1,574,324,472.59**	**1,833,481,421.15**

(3) See [Note VI, 3] for the amounts of shareholder units that hold 5% or more voting shares of the Company as at 31 December 2009 concerning interest receivable.

8. Loans and advances to customers

(1) Distribution by individual and corporate customer

Item	31 December 2009	31 December 2008
Personal loans and advances	47,328,719,633.17	38,905,420,504.18
– Credit card	1,000,686,215.93	602,160,889.72
– Housing mortgage	27,787,814,806.18	23,996,234,036.17
– Other	18,540,218,611.06	14,307,025,578.29
Corporate loans and advances	382,896,864,620.91	316,572,417,432.27
– Loans	374,658,096,250.88	294,717,241,043.63
– Discount	7,484,399,784.33	20,641,574,628.59
– Bills of exchange for imports/exports	754,368,585.70	1,213,601,760.05
Total loans and advances to customers	430,225,584,254.08	355,477,837,936.45
Less: Allowances for losses on loans	10,773,337,259.27	9,809,864,019.93
Of which: Single provisioning	3,797,040,015.14	4,319,213,564.49
Portfolio provisioning	6,976,297,244.13	5,490,650,455.44
Book value of loans and advances to customers	**419,452,246,994.81**	**345,667,973,916.52**

(2) Distribution by industry

Industry	31 December 2009 Book balance	31 December 2009 Percentage	31 December 2008 Book balance	31 December 2008 Percentage
Agriculture, forestry, animal husbandry and fishery	1,787,981,751.89	0.42%	1,617,408,742.99	0.45%
Mining	13,455,600,000.00	3.13%	9,465,550,000.00	2.66%
Manufacturing	119,443,611,946.71	27.75%	100,138,091,125.20	28.18%
Production and supply of electronic power, gas and water	19,794,009,389.61	4.60%	20,703,173,087.08	5.82%
Construction	24,393,322,093.37	5.67%	24,810,794,778.49	6.98%
Transportation, storage and postal services	30,021,387,762.48	6.98%	20,525,033,868.00	5.77%
Information transmission, computer services and software industry	3,692,680,866.84	0.86%	2,738,024,022.54	0.77%
Wholesale and retail	51,608,444,126.24	11.99%	50,514,224,918.46	14.21%
Lodging and catering services	5,141,599,023.85	1.20%	4,096,712,856.85	1.15%
Finance	422,491,878.76	0.10%	929,080,255.25	0.26%
Real estate	33,545,222,328.94	7.80%	23,123,783,089.20	6.50%
Leasing and commercial services	59,525,691,078.87	13.83%	23,956,309,577.97	6.74%
Scientific research, technological services and geographical prospecting	983,610,000.00	0.23%	462,500,000.00	0.13%
Water, environment and public utility management	6,400,604,256.52	1.49%	4,038,044,256.52	1.14%
Resident services and other services	95,400,000.00	0.02%	2,111,440,518.48	0.59%
Education	2,334,400,000.00	0.54%	3,364,694,121.52	0.95%
Health care, social security and social welfare	431,478,332.50	0.10%	399,307,585.13	0.11%
Culture, sports and entertainment	2,226,430,000.00	0.52%	1,345,870,000.00	0.38%
Public management and social organization	108,500,000.00	0.03%	1,590,800,000.00	0.45%
Discounted bills	7,484,399,784.33	1.74%	20,641,574,628.59	5.81%
Personal loans	47,328,719,633.17	11.00%	38,905,420,504.18	10.95%
Total loans and advances to customers	430,225,584,254.08	100%	355,477,837,936.45	100%
Less: Allowances for losses on loans	10,773,337,259.27		9,809,864,019.93	
Book value of loans and advances to customers	**419,452,246,994.81**		**345,667,973,916.52**	

(3) Distribution by geographic region

Geographic region	31 December 2009 Book balance	31 December 2009 Percentage	31 December 2008 Book balance	31 December 2008 Percentage
Northern and Northeastern China	155,495,626,971.66	36.14%	128,883,332,426.32	36.25%
Eastern China	149,399,355,577.88	34.73%	118,228,495,307.85	33.26%
Southern and Central China	64,896,266,608.13	15.08%	58,720,193,905.49	16.52%
Western China	60,434,335,096.41	14.05%	49,645,816,296.79	13.97%
Total loans and advances to customers	430,225,584,254.08	100%	355,477,837,936.45	100%
Less: Allowances for losses on loans	10,773,337,259.27		9,809,864,019.93	
Book value of loans and advances to customers	**419,452,246,994.81**		**345,667,973,916.52**	

Northern and Northeastern China: Beijing, Tianjin, Hebei, Shandong, Liaoning and Inner Mongolia;

Eastern China: Jiangsu, Shanghai and Zhejiang;

Southern and Central China: Guangdong, Guangxi, Hubei, Shanxi and Fujian; and

Western China: Shaanxi, Xinjiang, Sichuan, Chongqing and Yunnan.

(4) Distribution by method of guarantee

Item	31 December 2009	31 December 2008
Unsecured loans	71,725,179,173.97	50,952,331,712.64
Guaranteed loans	145,367,785,989.81	116,701,835,007.32
Loans secured by mortgages	213,132,619,090.30	187,823,671,216.49
Of which: Mortgaged loans	164,668,701,711.26	131,484,151,241.54
Pledged loans	48,463,917,379.04	56,339,519,974.95
Less: Allowances for losses on loans	10,773,337,259.27	9,809,864,019.93
Book value of loans and advances to customers	**419,452,246,994.81**	**345,667,973,916.52**

(5) Overdue loans

A. Loans with principal overdue for one or more days as a whole or in part

Item	Overdue for 1 to 90 days (included)	Overdue for 90 to 360 days (included)	31 December 2009 Overdue for 360 days to 3 years (included)	Overdue for more than 3 years	Total
Unsecured loans	–	–	–	14,471,146.86	14,471,146.86
Guaranteed loans	343,515,863.94	1,036,925,678.12	1,441,293,954.03	825,256,730.38	3,646,992,226.47
Mortgaged loans	396,442,541.68	875,210,558.82	667,470,040.24	327,078,187.43	2,266,201,328.17
Pledged loans	–	263,581,698.50	–	7,960,209.04	271,541,907.54
Total	**739,958,405.62**	**2,175,717,935.44**	**2,108,763,994.27**	**1,174,766,273.71**	**6,199,206,609.04**

Item	Overdue for 1 to 90 days (included)	Overdue for 90 to 360 days (included)	31 December 2008 Overdue for 360 days to 3 years (included)	Overdue for more than 3 years	Total
Unsecured loans	–	13,242,018.97	116,801,114.00	46,884,978.09	176,928,111.06
Guaranteed loans	693,334,528.56	850,824,518.65	1,508,159,946.76	771,983,171.79	3,824,302,165.76
Mortgaged loans	228,139,410.22	698,573,090.17	529,621,836.18	429,703,781.49	1,886,038,118.06
Pledged loans	1,333,789.94	28,039,640.00	423,181,156.09	112,633,710.71	565,188,296.74
Total	**922,807,728.72**	**1,590,679,267.79**	**2,577,764,053.03**	**1,361,205,642.08**	**6,452,456,691.62**

B. Loan with interest overdue for one or more days but principal not overdue

Item	Overdue for 1 to 90 days (included)	Overdue for 90 to 360 days (included)	31 December 2009 Overdue for 360 days to 3 years (included)	Overdue for more than 3 years	Total
Unsecured loans	27,790,000.00	–	19,800,000.00	–	47,590,000.00
Guaranteed loans	137,204,600.00	114,000,000.00	–	–	251,204,600.00
Mortgaged loans	86,900,000.00	35,000,000.00	–	–	121,900,000.00
Pledged loans	–	–	190,000,000.00	–	190,000,000.00
Total	**251,894,600.00**	**149,000,000.00**	**209,800,000.00**	**–**	**610,694,600.00**

Item	Overdue for 1 to 90 days (included)	Overdue for 90 to 360 days (included)	31 December 2008 Overdue for 360 days to 3 years (included)	Overdue for more than 3 years	Total
Unsecured loans	–	20,000,000.00	–	–	20,000,000.00
Guaranteed loans	365,257,093.94	97,978,800.00	33,610,000.00	–	496,845,893.94
Mortgaged loans	300,984,100.00	193,940,000.00	30,000,000.00	242,290,000.00	767,214,100.00
Pledged loans	40,000,000.00	190,000,000.00	–	–	230,000,000.00
Total	**706,241,193.94**	**501,918,800.00**	**63,610,000.00**	**242,290,000.00**	**1,514,059,993.94**

(6) Allowances for losses on loans

Item	2009	2008
Beginning balance	9,809,864,019.93	7,528,317,448.94
Allowances charged during the current period	3,329,899,320.85	4,507,400,785.59
Recoveries during the current period	32,779,442.10	59,562,128.42
Reversal of interest on impaired loans	214,613,635.50	227,949,900.94
Write-offs during the current period	1,986,959,091.22	2,054,484,985.58
Transfer out during the current period	197,632,796.89	2,981,456.50
Ending balance	10,773,337,259.27	9,809,864,019.93

(7) As at 31 December 2009, the balance of loans to shareholder units that hold 5% or more voting shares of the Company was equivalent to RMB1,123 million.

9. Available-for-sale financial assets

Item	31 December 2009	31 December 2008
Bonds	11,679,416,737.25	18,085,039,644.85
Of which: Government bonds	275,843,780.01	338,679,892.20
Financial bonds	6,440,859,427.49	3,685,577,414.92
Central bank bills	3,078,707,250.00	13,919,785,750.01
Other bonds	1,884,006,279.75	140,996,587.72
Less: Allowance for impairment losses on available-for-sale financial assets	38,678,265.30	138,243,095.78
Carrying value of available-for-sale financial assets	**11,640,738,471.95**	**17,946,796,549.07**

See [Note VI, 2 (3)] for the information on bonds issued by shareholder units that hold 5% or more voting shares of the Company among available-for-sale financial assets as at 31 December 2009.

10. Investments classified as receivables

Item	31 December 2009	31 December 2008
Trust investments receivable	1,280,000,000.00	–
Less: Allowance for impairment losses on investments classified as receivables	–	–
Carrying value of investments classified as receivables	**1,280,000,000.00**	**–**

Trust investments receivable refer to the principal-guaranteed wealth management products that are issued by the Company, the investment of which is oriented towards the trust schemes set up by relevant trust companies. Since the Company undertakes the obligation for principal preservation of these wealth management products, trust investments and wealth management funds relevant to them are recognized as the assets and liabilities of the Company respectively.

11. Held-to-maturity investments

Item	31 December 2009 Book balance	31 December 2009 Fair value	31 December 2008 Book balance
Bonds	69,279,142,381.65	69,781,076,663.73	69,202,616,542.90
Of which: Government bonds	47,478,893,705.93	48,065,641,649.55	45,273,089,169.38
Financial bonds	17,778,423,633.88	17,690,701,799.54	17,004,707,377.00
Central bank bills	3,500,000,000.00	3,500,000,000.00	6,796,250,875.92
Other bonds	521,825,041.84	524,733,214.64	128,569,120.60
Less: Impairment allowances for held-to-maturity investments	50,525,846.10	–	105,268,012.51
Book value of held-to-maturity investments	**69,228,616,535.55**	**69,781,076,663.73**	**69,097,348,530.39**

(1) As at 31 December 2009, treasury bills in a par value of RMB20 million among the bonds held by the Company were frozen by courts due to legal disputes.

(2) As at 31 December 2009, bonds held by the Company in a par value of RMB20,233.92 million were used to sell repurchased securities and pledged for time deposits of commercial banks under cash management of the central treasury.

(3) As at 31 December 2009, the book balance of held-to-maturity investment that are sold by the Company but not mature yet was RMB570 million, occupying 0.82% of the investment amount before sales.

(4) See [Note VI, 2 (3)] for the information on bonds issued by shareholder units that hold 5% or more voting shares of the Company among held-to-maturity investments as at 31 December 2009.

12. Long-term equity investments

Item	31 December 2009	31 December 2008
China UnionPay Co. Ltd.	81,250,000.00	81,250,000.00
VISA International	568,134.62	567,934.89
Total	**81,818,134.62**	**81,817,934.89**

(1) As at 31 December 2009, the Company held a total of 62.5 million shares in China UnionPay Co. Ltd.

(2) As at 31 December 2009, the Company held a total of 1,999 shares in VISA International. According to decisions of the board of directors of VISA International, shares held by the Company can not be sold within three years following VISA International restructuring and listing.

(3) As in the active market, there was no quotation of the equity instrument investments while the fair value could not be reliably measured, they are measured according to the cost. As at 31 December 2009, there was no impairment in the Company's long-term equity investments.

13. Investment-oriented real estate

(1) Original cost of investment-oriented real estate

Investment-oriented real estate	1 January 2009	Increase	Decrease	31 December 2009
Houses and buildings	311,000,000.00	–	–	311,000,000.00

(2) Total of accumulative depreciation and amortization

Investment-oriented real estate	1 January 2009	Increase	Decrease	31 December 2009
Houses and buildings	43,207,155.96	8,441,428.56	–	51,648,584.52

(3) Impairment allowances for investment-oriented real estate

Investment-oriented real estate	1 January 2009	Increase	Decrease	31 December 2009
Houses and buildings	–	–	–	–

14. Fixed assets

Item	31 December 2009	31 December 2008
Original value of fixed assets	5,775,840,617.98	5,379,499,589.44
Less: Accumulative depreciation	1,950,378,987.28	1,739,599,305.81
Construction-in-progress	643,666,335.67	470,442,939.52
Total	**4,469,127,966.37**	**4,110,343,223.15**

(1) Original value of fixed assets

Item	1 January 2009	Transfer in of construction-in-progress	Other increase	Decrease	31 December 2009
Houses and buildings	3,304,477,624.03	180,928,458.72	15,434,008.88	–	3,500,840,091.63
Office supplies	1,994,100,734.34	3,013,662.86	329,968,065.63	135,890,393.27	2,191,192,069.56
Motor vehicles	80,921,231.07	–	12,633,902.21	9,746,676.49	83,808,456.79
Total	**5,379,499,589.44**	**183,942,121.58**	**358,035,976.72**	**145,637,069.76**	**5,775,840,617.98**

At the end of the period, there were no fixed assets that were mortgaged or guaranteed.

(2) Accumulative depreciation

Item	1 January 2009	Increase	Transfer in	Decrease	31 December 2009
Houses and buildings	529,965,507.29	92,206,344.21	–	–	622,171,851.50
Office supplies	1,169,459,547.30	244,262,328.36	–	124,192,830.67	1,289,529,044.99
Motor vehicles	40,174,251.22	6,717,196.61	–	8,213,357.04	38,678,090.79
Total	**1,739,599,305.81**	**343,185,869.18**	**–**	**132,406,187.71**	**1,950,378,987.28**

(3) Construction-in-progress

A. Details on construction-in-progress

Project name	Budget	1 January 2009	Increase	Transferred into fixed assets	Other transfer out	31 December 2009	Project progress
Office building of Xi'an Branch	104,568,144.00	68,787,028.64	4,702,653.38	–	–	73,489,682.02	70.28%
Office building of Chengdu Branch	116,990,000.00	94,801,187.44	5,608,149.87	100,409,337.31	–	–	100.00%
Office building of Suzhou Branch	162,490,000.00	–	81,242,172.00	–	–	81,242,172.00	50.00%
Office building of Yantai Sub-branch	80,000,000.00	65,724,793.98	14,794,327.43	80,519,121.41	–	–	100.00%
Premises of Hohhot Branch	3,000,000.00	1,500,000.00	–	–	–	1,500,000.00	50.00%
Office building of Fuzhou Branch	120,000,000.00	92,538,701.50	9,179,555.00	–	–	101,718,256.50	84.77%
Office building of Shenyang Branch	198,640,000.00	138,109,941.36	45,243,550.00	–	–	183,353,491.36	92.30%
Office building of Guangzhou Branch	253,170,000.00	–	165,486,207.60	–	–	165,486,207.60	65.37%
Office building of Chongqing Branch	151,680,000.00	–	29,375,000.00	–	–	29,375,000.00	19.37%
Others		8,981,286.60	1,533,902.45	3,013,662.86	–	7,501,526.19	
Total		**470,442,939.52**	**357,165,517.73**	**183,942,121.58**	**-**	**643,666,335.67**	

B. The funds for construction-in-progress of the Company are sourced from self-operation. As at 31 December 2009, there was no interest capitalization in the construction-in-progress of the Company.

(4) As at 31 December 2009, there was no impairment in the fixed assets of the Company.

15. Deferred income tax assets and liabilities

(1) Deferred income tax assets and liabilities already recognized

Item	31 December 2009	31 December 2008
Deferred income tax assets:		
Allowances for losses on loans	940,478,784.98	709,484,569.64
Impairment allowances for other assets	215,912,967.59	218,209,489.04
Changes in fair value of trading financial assets	12,327,121.61	114,593,222.51
Others	174,794,986.34	363,349.54
Total	**1,343,513,860.52**	**1,042,650,630.73**
Deferred income tax liabilities:		
Changes in fair value of available-for-sale financial assets	2,505,396.68	102,048,676.57
Changes in fair value of trading financial assets	6,053,912.91	119,689,747.98
Others	3,405.38	–
Total	**8,562,714.97**	**221,738,424.55**

(2) Temporary differences relating to the asset or liability items incurring such differences

Item	Amount of temporary difference
Allowances for losses on loans	3,761,915,139.92
Impairment allowances for other assets	863,651,870.36
Changes in fair value of available-for-sale financial assets	(10,021,586.72)
Changes in fair value of trading financial assets	25,092,834.82
Changes in fair value of precious metal	(13,621.52)
Others	699,179,945.32
Total	**5,339,804,582.18**

16. Other assets

Item	31 December 2009	31 December 2008
Other receivables	1,473,469,385.83	1,062,934,720.98
Less: Allowances for bad debts	522,318,765.59	389,914,635.02
Long-term deferred expenses	575,779,455.11	435,140,431.39
Repossessed assets to be disposed	422,182,280.60	530,999,129.63
Total	**1,949,112,355.95**	**1,639,159,646.98**

(1) Other receivables

A. By category

	31 December 2009			
Item	**Amount**	**Percentage (%)**	**Allowances for bad debts**	**Provision percentage (%)**
Other receivables with significant individual amount	213,693,769.33	14.50%	195,807,863.72	91.63%
Other receivables with insignificant individual amount but big portfolio risk based on credit risk characteristics	385,509,823.35	26.16%	326,510,901.87	84.70%
Other receivables with insignificant amount	874,265,793.15	59.34%	–	–
Total	**1,473,469,385.83**	**100.00%**	**522,318,765.59**	**35.45%**

Item	31 December 2008			
	Amount	Percentage (%)	Allowances for bad debts	Provision percentage (%)
Other receivables with significant individual amount	179,678,046.78	16.90%	147,860,723.17	82.29%
Other receivables with insignificant individual amount but big portfolio risk based on credit risk characteristics	326,929,098.69	30.76%	242,053,911.85	74.04%
Other receivables with insignificant amount	556,327,575.51	52.34%	–	–
Total	**1,062,934,720.98**	**100.00%**	**389,914,635.02**	**36.68%**

B. By aging

Aging	31 December 2009		31 December 2008	
	Amount	Percentage	Amount	Percentage
Less than one year	672,605,931.22	45.65%	480,895,161.22	45.24%
One to two years	257,303,252.78	17.46%	221,348,083.82	20.83%
Two to three years	213,769,026.57	14.51%	115,029,954.66	10.82%
Over three years	329,791,175.26	22.38%	245,661,521.28	23.11%
Total	**1,473,469,385.83**	**100.00%**	**1,062,934,720.98**	**100.00%**

C. By content

Item	31 December 2009	31 December 2008
Deductions of courts	213,693,769.33	179,678,046.78
Legal costs	95,793,825.92	99,739,206.57
Reserves	4,031,447.12	5,125,732.05
Others	1,159,950,343.46	778,391,735.58
Total	**1,473,469,385.83**	**1,062,934,720.98**

D. Provisions of allowances for bad debts of other receivables with significant individual amount or with insignificant individual amount but subject to independent impairment testing at the period end

Item of other receivables	Book balance	Amount of bad debt	Provision percentage	Reason
Deductions of courts	213,693,769.33	195,807,863.72	91.63%	Big risk for not recovery
Legal costs	95,793,825.92	65,957,545.82	68.85%	Big risk for not recovery
Compensation advance	289,715,997.43	260,553,356.05	89.93%	Big risk for not recovery
Total	**599,203,592.68**	**522,318,765.59**		

E. Actual writes-off of other receivables during the reporting period

Unit name	Nature of other receivables	Amount written off	Reason	As a result of related transaction
Shenzhen Minglun Optoelectronic Technology Co., Ltd.	Legal costs	1,965,542.00	Irrecoverable	No
Gangzhou Fodak Group	Legal costs	832,101.00	Irrecoverable	No
Shenyang Nanzheng Plaza Co., Ltd.	Legal costs	801,307.00	Irrecoverable	No
Shenyang Hejin Holding Investment Co., LTD	Legal costs	601,070.00	Irrecoverable	No
Other legal costs	Legal costs	12,786,702.81	Irrecoverable	No
Total		**16,986,722.81**		

F. As at 31 December 2009, there was no arrearage from shareholders that hold 5% ore more voting shares in the Company in other receivables.

(2) Long-term deferred expenses

Item	Original amount	1 January 2009	Increase	Amortization	31 December 2009
Decoration costs	445,888,545.74	166,843,976.12	157,055,502.72	87,505,953.63	236,393,525.21
Rents	606,622,305.68	148,181,217.66	391,336,827.81	395,295,094.74	144,222,950.73
Computer and software development expenses	285,580,607.83	96,328,889.88	138,054,201.94	63,492,923.28	170,890,168.54
Others	47,765,446.26	23,786,347.73	25,111,275.32	24,624,812.42	24,272,810.63
Total	**1,385,856,905.51**	**435,140,431.39**	**711,557,807.79**	**570,918,784.07**	**575,779,455.11**

(3) Repossessed assets to be disposed

Item	31 December 2009	31 December 2008
Houses	675,661,084.55	745,887,372.99
Equity	55,605,641.20	66,416,905.45
Others	37,812,414.81	37,799,468.98
Total	769,079,140.56	850,103,747.42
Less: Impairment allows for repossessed assets	346,896,859.96	319,104,617.79
Net amount	**422,182,280.60**	**530,999,129.63**

17. Impairment allowances for assets

Item	1 January 2009	Allowance	Transfer in	Recovery of writes-off	Transfer out	Reverse of interests on impaired assets	Writes-off	31 December 2009
I. Allowances for due from banks and other financial institutions	5,500,000.00	–	–	–	–	–	–	5,500,000.00
II. Allowances for placements with banks and other financial institutions	143,876,680.45	(10,964,554.92)	–	–	–	–	–	132,912,125.53
III. Allowances for bad debts	389,914,635.02	81,121,853.38	68,269,000.00	–	–	–	16,986,722.81	522,318,765.59
IV. Allowance for impairment losses on available-for-sale financial assets	138,243,095.78	(28,537,935.93)	–	–	68,269,000.00	2,757,894.55	–	38,678,265.30
V. Impairment allowances for investments classified as receivables	–	–	–	–	–	–	–	–
VI. Impairment allowances for held-to-maturity investments	105,268,012.51	(51,282,202.05)	–	–	–	3,459,964.36	–	50,525,846.10
VII. Allowances for losses on loans	9,809,864,019.93	3,329,899,320.85	–	32,779,442.10	197,632,796.89	214,613,635.50	1,986,959,091.22	10,773,337,259.27
VIII. Impairment allowances for fixed assets	–	–	–	–	–	–	–	–
IX. Impairment allowances for intangible assets	–	–	–	–	–	–	–	–
X. Impairment allowances for repossessed assets to be disposed	319,104,617.79	56,779,519.58	–	–	28,987,277.41	–	–	346,896,859.96

18. Due from banks and other financial institutions

Item	31 December 2009	31 December 2008
Due from banks	82,255,990,275.64	87,014,157,041.08
Due from other financial institutions	–	–
Total	**82,255,990,275.64**	**87,014,157,041.08**

19. Placements from banks and other financial institutions

Item	31 December 2009	31 December 2008
Placements from domestic banks	6,091,324,110.00	7,660,000,000.00
Placements from foreign banks	29,947,359.95	28,163,560.07
Placements from domestic non-banking financial institutions	–	–
Placements from foreign non-banking financial institutions	–	–
Total	**6,121,271,469.95**	**7,688,163,560.07**

20. Trading financial liabilities

Item	31 December 2009	31 December 2008
Trading financial liabilities – gold	496,000.00	–

21. Repurchase agreements

Item	31 December 2009	31 December 2008
Bonds	16,181,900,000.00	20,120,000,000.00
Of which: Government bonds	11,827,900,000.00	10,060,000,000.00
Central bank bills	–	10,060,000,000.00
Financial bonds	4,354,000,000.00	–
Bills	91,576,608,809.76	65,223,327,588.81
Credit assets	–	643,760,000.00
Total	**107,758,508,809.76**	**85,987,087,588.81**

22. Deposits from customers

(1) By category

Item	31 December 2009	31 December 2008
Current deposits	227,019,393,197.58	179,633,066,561.91
Current savings deposits	26,913,206,635.51	19,701,768,665.38
Time deposits	172,055,770,686.77	144,485,251,193.65
Time savings deposits	56,621,312,316.86	43,916,984,530.92
Drafts and telegraphic transfers payable and outward remittances	5,172,724,179.27	2,955,693,460.67
Deposits received	93,822,693,395.46	88,039,144,623.85
Structured deposits	73,287,295.60	6,617,667,721.50
Total	**581,678,387,707.05**	**485,349,576,757.88**

(2) By geographic region

Geographic region	31 December 2009		31 December 2008	
	Book balance	Percentage	Book balance	Percentage
Northern and Northeastern China	218,449,988,337.88	37.56%	189,871,913,748.37	39.11%
Eastern China	180,911,666,285.67	31.10%	148,690,161,269.44	30.64%
Southern and Central China	104,197,594,896.38	17.91%	79,973,879,684.43	16.48%
Western China	78,119,138,187.12	13.43%	66,813,622,055.64	13.77%
Total	**581,678,387,707.05**	**100%**	**485,349,576,757.88**	**100%**

23. Employees' remuneration payable

Item	1 January 2009	Increase	Decrease	31 December 2009
I. Salaries, bonus, allowance and subsidy	906,584,717.65	2,053,494,031.32	1,901,280,336.15	1,058,798,412.82
II. Employees' welfare	–	274,782,066.18	274,782,066.18	–
III. Social insurance	21,029,933.51	342,228,767.00	347,429,503.78	15,829,196.73
Of which: 1. Medical insurance	3,686,882.52	72,843,321.40	73,038,800.27	3,491,403.65
2. Basic endowment insurance	15,648,813.36	184,348,129.44	189,975,366.49	10,021,576.31
3. Annuity	197,824.26	64,190,119.44	64,287,603.50	100,340.20
4. Unemployment insurance	1,407,367.93	12,718,518.31	13,377,958.71	747,927.53
5. Service injury insurance	19,797.61	3,883,484.75	3,870,128.89	33,153.47
6. Maternity insurance	69,247.83	4,245,193.66	2,879,645.92	1,434,795.57
IV. Public reserve for housing	22,523,376.58	220,858,297.73	230,822,388.61	12,559,285.70
V. Trade union fund	10,638,635.41	40,901,721.41	38,393,390.11	13,146,966.71
VI. Employee education expenses	14,997,440.75	49,401,942.50	34,838,567.61	29,560,815.64
VII. Non-monetary welfare	–	–	–	–
VIII. Compensation for termination of labor service	–	–	–	–
IX. Others (Note)	–	450,564,215.60	450,564,215.60	–
Of which: Payment for shares settled in cash	–	–	–	–
Total	**975,774,103.90**	**3,432,231,041.74**	**3,278,110,468.04**	**1,129,894,677.60**

Note: The 8th Meeting of the 4th Board of Directors of the Company reviewed and approved the Proposal on the Revision of Housing Subsidy Measures, agreeing to continuously formulate and improve standard housing subsidy measures in accordance with the decision of the Board on implementing the monetary reform on allocation of houses. On 19 April 2007, the Company promulgated the Supplementary Rules on the Housing Reform of Hua Xia Bank and the Detailed Implementing Rules on the Management of Housing Subsidy of Hua Xia Bank, which became effective on 25 April 2007.

Some of the employees involved in the housing reform chose the previous loan approach. According to the loan agreement executed between the Company and the employees, the predicated loans to be offered by the Company amounted to RMB204,228,100 as at 31 December 2009, which were recognized into gain (loss) year by year.

24. Taxes payable

Item	31 December 2009	31 December 2008
Enterprise income tax	1,489,033,378.01	913,537,896.62
Business tax	400,026,375.72	408,317,819.39
Real estate tax	1,282,720.66	1,012,245.75
Urban construction tax	26,752,478.99	26,038,158.90
Others	71,505,792.71	54,452,121.04
Total	**1,988,600,746.09**	**1,403,358,241.70**

25. Interest payable

Item	31 December 2009	31 December 2008
Deposit interest	2,621,737,325.01	3,236,134,198.05
Bond interest payable	329,338,076.99	403,315,413.68
Sales of repurchased bills interest	329,271,371.82	332,094,499.11
Others	63,276,782.19	538,239,702.04
Total	**3,343,623,556.01**	**4,509,783,812.88**

26. Projected liabilities

Item	1 January 2009	Increase	Decrease	31 December 2009
Unsettled lawsuits	61,876,900.00	18,278,450.00	25,451,385.34	54,703,964.66

27. Bonds payable

(1) Statement of bonds

Bond name	Subprime bonds in 2004	Subprime bonds in 2006	Mixed capital bonds in 2007	Financial bonds, issue I in 2007	Financial bonds, issue II in 2007	Total
Total book value	4,250,000,000.00	2,000,000,000.00	4,000,000,000.00	7,620,000,000.00	6,000,000,000.00	23,870,000,000.00
Issue date	July-August 2004	8-9 November 2006	26-27 June 2007	21-23 August 2007	17-19 October 2007	
Other basic information	6-year debts with floating interest rate	10-year bonds with fixed interest; the issuer has the option to redeem at the end of the fifth year	15-year; the issuer has the one-time option to redeem from the end of the tenth year to the maturity	RMB5.06 billion worth bonds have a term of 5 years and fixed interest; the issuer cannot redeem, but the investor may repurchase at one time at the end of the third year; the other RMB2.56 billion worth bonds have a term of 5 years and floating interest; the issuer cannot redeem and the investor cannot repurchase	RMB1.7 billion worth bonds have a term of 5 years and fixed interest; the issuer cannot redeem, but the investor may repurchase at one time at the end of the third year; the other RMB4.3 billion worth bonds have a term of 5 years and floating interest; the issuer cannot redeem	
Premium (discount) amount	–	–	–	–	–	–
Ending balance	4,250,000,000.00	2,000,000,000.00	4,000,000,000.00	7,620,000,000.00	6,000,000,000.00	23,870,000,000.00

A. Subprime bonds

Subprime bonds in 2004

As approved by China Banking Regulatory Commission and the People's Bank of China, the Company issued RMB4.25 billion of subprime bonds with a fixed term of six years from July to August 2004 and the annual interest rate is the interest rate of one-year deposits specified by the People's Bank of China plus 2.72% to 2.82%.

Subprime bonds in 2006

As approved by China Banking Regulatory Commission and the People's Bank of China, the Company issued RMB2 billion of subprime bonds in the National Inter-Bank Bond Market from 8 to 9 November 2006. These subprime bonds have a fixed interest rate with a term of 10 years; at the end of the fifth year, the issuer has the option of redeem; the book interest rate in the first five years is 3.70% and that of the later 5 years is 6.70%.

The value date of the bonds was 9 November 2006. In case that the issuer does not exercise the redemption option, the interest period of the bonds will be from 9 November 2006 to 8 November 2016. Otherwise, the interest period of the part of the bonds redeemed will be from 9 November 2006 to 8 November 2011.

The claim for the abovementioned subprime bonds follows after the other liabilities of the Company but is in front of the Company's mixed bond holder and equity capital. In calculating the capital adequacy ratio, it may be included into the supplementary capital of the Company according to the provisions of the regulatory authority.

B. Mixed capital bonds

As approved by China Banking Regulatory Commission and the People's Bank of China, the Company issued RMB4 billion of mixed capital bonds from 26 to 27 June 2007. The bonds have a term of 15 years; the issuer has the one-time option to redeem at the end of the tenth year to the maturity.

This issue of the bonds consists of RMB2.4 billion with a fixed interest rate and RMB1.6 billion with floating interest rate; the initial issuing interest rate of the bonds with a fixed interest rate as determined through bookkeeping files is 5.89% and the initial interest difference of the bonds with floating interest rate is 2%.

The interest of the bonds with a fixed interest rate is paid on an annual basis. In case that the issuer fails to exercise the advance redemption option on the date of 10 years' maturity, commencing from the 11th interest year, the interest of the bonds shall increase by 300BPs or 8.89% on the basis of the initial issuing interest rate.

The annual interest rate of the bonds with floating interest rate is the sum of the benchmark interest rate and the basic interest difference. This benchmark interest rate is determined based on the interest rate of the one-year time savings deposits for lump-sum withdrawal published by the People's Bank of China applicable to the first issuing date and the date of value of other interest years. The basic interest difference of the first 10 years is 2%. In case that the issuer fails to exercise the advance redemption option on the date of 10 years' maturity, commencing from the 11th interest year, the interest of the bonds shall increase by 100BPs or 3% on the basis of the initial issuing interest difference.

The value date of the bonds was 27 June 2007. In case that the issuer does not exercise the redemption option, the interest period of the bonds will be from 27 June 2007 to 26 June 2022. Otherwise, the honoring date of the bonds redeemed shall be the honoring date as determined in the redemption announcement.

According to the relevant regulations, the payment order of the mixed capital bonds is after the long-term subprime bonds but in front of the equity capital. In calculating the capital adequacy ratio, the mixed capital bonds payable may be included into the supplementary capital of the Company according to the provisions of the regulatory authority.

C. Financial bonds

Financial bonds, issue I in 2007

As approved by China Banking Regulatory Commission and the People's Bank of China, the Company issued RMB7.62 billion of financial bonds (Issue I) in the National Inter-Bank Bond Market from 21 to 23 August 2007.

Type I of this issue of bonds has a fixed interest rate with a term of five years without guarantee and the issuer is not allowed to redeem. At the end of the third year, the investor has the one-time sale-back option, i.e. the investor has the option to sell back all or partial bonds held based on the book value to the issuer at the end of the third year. The interest of Type I is calculated annually with simple interest instead of compound interest and the interest is payable on a lump-sum basis upon maturity and no more interest shall be paid if the bonds are overdue. This issue of bonds with a fixed interest rate amounts to RMB5.06 billion and the issuing interest rate is 4.15% determined through bookkeeping files.

Type II of this issue of bonds has floating interest rate with a term of 5 years without guarantee. The issuer is not allowed to redeem and the investor is not allowed to sell back. The interest is payable once every three months and the book interest rate is the benchmark interest rate plus the basic interest difference. The benchmark interest rate is the average of the 10 days' Shanghai Interbank Offered Rate (SHIBOR) in 3 months as published by China Foreign Exchange Trade System (National Interbank Loans Centre). The benchmark interest rate of the first interest period is the average of the three months' Shibor 10 day of one business day (i.e. 22 August) before the interest day; the benchmark interest rate adopted for the following each interest period is the average of the three months' Shibor 10 day of one business day before the interest payment day. This issue of bonds with floating interest rate amounts to RMB2.56 billion and the basic interest difference determined through bookkeeping files is 76BPs.

Financial bonds, issue II in 2007

As approved by China Banking Regulatory Commission and the People's Bank of China, the Company issued RMB6.00 billion of financial bonds (Issue II) in the National Inter-Bank Bond Market from the 17 to 19 October, 2007.

Type I of this issue of bonds is the bond has a fixed interest rate with a term of 5 years without guarantee and the issuer is not allowed to redeem. At the end of the third year, the investor has the one-time sale-back option, i.e. the investor is entitled to sell back all or part of the bonds based on the book value to the issuer. The interest of Type 1 is calculated annually with simple interest instead of compound interest and the interest is payable on a lump-sum basis upon maturity and no more interest shall be paid for overdue. This issue of bonds with a fixed interest rate amounts to RMB1.70 billion and the issuing interest rate is 4.75% determined through bookkeeping files.

Type II of this issue of bonds has floating interest rate with a term of 5 years without guarantee. The issuer is not allowed to redeem and the investor is not allowed to sell back. The interest is paid once a year. The book interest rate is the sum of the benchmark interest rate and the basic interest difference. This benchmark interest rate is determined based on the interest rate of the one-year time savings deposit for lump-sum withdrawal published by the People's Bank of China applicable to the first issuing date and the date of value of other interest bearing years. The basic interest difference is determined through bookkeeping files. This issue of bonds with floating interest rate amounts to RMB4.30 billion and the basic interest difference determined through bookkeeping files is 0.85%.

(2) Bond interest

Bond name	Accrued interest during the period	Accumulated interest paid	Interest payable at the end of period
Subprime bonds	281,130,537.92	1,388,910,773.52	95,795,233.64
Mixed capital bonds	212,759,721.16	461,920,000.00	107,834,739.72
Financial bonds in 2007	545,693,942.59	1,215,922,053.46	125,708,103.63
Total	**1,039,584,201.67**	**3,066,752,826.98**	**329,338,076.99**

28. Other liabilities

Item	31 December 2009	31 December 2008
Other payables	2,582,978,602.19	1,972,114,504.26
Dividends payable	31,700,000.00	47,870,000.00
Funds transferred to loans	338,222,231.07	145,081,552.02
Other current liabilities	4,051,469,608.39	4,510,874,230.21
Total	**7,004,370,441.65**	**6,675,940,286.49**

(1) Other payables

A. By aging

	31 December 2009		31 December 2008	
Aging	**Amount**	**Percentage**	**Amount**	**Percentage**
Less than one year	2,435,467,777.55	94.29%	999,464,004.31	50.68%
One to two years	99,032,783.65	3.83%	882,793,108.11	44.76%
Two to three years	17,020,174.06	0.66%	82,454,281.27	4.18%
Over three years	31,457,866.93	1.22%	7,403,110.57	0.38%
Total	**2,582,978,602.19**	**100%**	**1,972,114,504.26**	**100%**

B. By content

Item	31 December 2009	31 December 2008
Amount from debt assignment	–	51,364,903.57
Amount of agency honored bonds	34,280.00	34,280.00
Open cashier's check	1,663,562,719.39	1,254,754,811.36
Others	919,381,602.80	665,960,509.33
Total	2,582,978,602.19	1,972,114,504.26

The Company signed agreements with other financial institutions or enterprises for assigning all the principal and minor rights in connection with the loans under the Company's partial loan contracts to such financial institutions or enterprises. Due to the repurchase terms herein, the Company may bear the final risks arising from such loans transferred. Before such loans and advances are recovered in full, the Company still presents the loan principal not complying with the condition for recognition of financial asset transfer in the loan item and the amount of loan assignment is presented in the other payables. As at 31 December 2009, principal and interest of the above loans received by the Company totaled to RMB125,928,651.56 (as at 31 December 2008, principal and interest received by the Company accumulated to RMB74,563,747.99). Thus, the Company will not bear all the risks relating to such loans any longer and the assignment of loans came to its end.

C. As at 31 December 2009, there was none payable to shareholder units that hold 5% or more than 5% voting shares in the Company in the other payables.

(2) Dividend payable

Shareholder name	31 December 2009	31 December 2008
Luen Tai Group Co., Ltd.	–	47,870,000.00
Runhua Group Co., Ltd.	31,700,000.00	–
Total	**31,700,000.00**	**47,870,000.00**

(3) Other current liabilities

Item	31 December 2009	31 December 2008
Amount of agency service	34,170,460.06	52,605,854.24
Amount of wealth management (Note)	3,987,317,421.31	4,457,930,375.97
Amount of fund under custody/supervision	29,981,727.02	338,000.00
Total	**4,051,469,608.39**	**4,510,874,230.21**

Note: Amount of wealth management refers to mainly the wealth management funds and unsettled gains concerning the immature principal-guaranteed wealth management products issued by the Company. Since the Company undertakes the principal preservation obligation for such wealth management products, investments and wealth management funds in connection thereto are recognized as assets and liabilities of the Company respectively. As at 31 December 2009, the Company issued altogether 24 such wealth management products that are immature, the principal of which amounted to RMB3,937.66 million (as at 31 December 2008, such principal amounted to RMB4,444.57 million).

29. Share capital

Class of shares	1 January 2009	Increase/decrease during the period					31 December 2009
		Newly issued shares	Stock bonus	Conversion of capital reserve	Other	Subtotal	
I. Shares subject to restriction on sales							
1. State-owned shares	–	–	–	–	–	–	–
2. Shares held by state-owned corporations	1,711,094,055.00	–	–	–	(1,187,939,200.00)	(1,187,939,200.00)	523,154,855.00
3. Shares held by other domestic investors	275,720,800.00	–	–	–	(275,720,800.00)	(275,720,800.00)	–
Of which: Shares held by domestic non-state-owned corporations	275,720,800.00	–	–	–	(275,720,800.00)	(275,720,800.00)	–
Shares held by domestic natural persons	–	–	–	–	–	–	–
4. Shares held by foreign investors	803,213,461.00	–	–	–	(119,840,000.00)	(119,840,000.00)	683,373,461.00
Of which: Shares held by foreign corporations	803,213,461.00	–	–	–	(119,840,000.00)	(119,840,000.00)	683,373,461.00
Shares held by foreign natural persons	–	–	–	–	–	–	–
Total number of shares subject to restriction on sales	2,790,028,316.00	–	–	–	(1,583,500,000.00)	(1,583,500,000.00)	1,206,528,316.00
II. Shares not subject to restriction on sales							
1. RMB-denominated ordinary shares	2,200,500,000.00	–	–	–	1,583,500,000.00	1,583,500,000.00	3,784,000,000.00
2. Foreign shares listed domestically	–	–	–	–	–	–	–
3. Foreign shares listed overseas	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
Total number of shares not subject to restriction on sales	2,200,500,000.00	–	–	–	1,583,500,000.00	1,583,500,000.00	3,784,000,000.00
Total number of shares	**4,990,528,316.00**	**-**	**-**	**-**	**-**	**-**	**4,990,528,316.00**

On 8 June 2009, 1,583.5 million tradable shares of the Company subject to restriction on sales got listed for trading.

30. Capital reserve

Item	1 January 2009	Increase during the period	Decrease during the period	31 December 2009
Share premium	14,349,123,380.51	–	–	14,349,123,380.51
Other capital reserve (note)	306,146,029.67	(24,183,975.25)	274,445,864.43	7,516,189.99
Total	**14,655,269,410.18**	**(24,183,975.25)**	**274,445,864.43**	**14,356,639,570.50**

Note: Other capital reserve refers to the changes in fair value of available-for-sale financial assets through owner's equity, the increase during the period refers to the amount (after tax) affected by the changes in fair value of available-for-sale financial assets, and the decrease during the period refers to the profit and loss amount (after tax) transferred during the period.

31. Surplus reserve

Item	1 January 2009	Increase during the period	Decrease during the period	31 December 2009
Statutory surplus reserve	1,296,355,332.14	376,022,684.57	–	1,672,378,016.71
Free surplus reserve	110,971,000.00	–	–	110,971,000.00
Total	**1,407,326,332.14**	**376,022,684.57**	**–**	**1,783,349,016.71**

32. General risk reserve

Item	31 December 2009	31 December 2008
General risk reserve (note)	6,988,533,664.52	5,406,956,315.68

Note: The Company sets aside general risk reserve from net profit as the profit distribution to handle and the balance of general risk reserve shall not be lower than 1% of the balance of assets undertaking risk and loss at the end of the period according to related provisions of the Ministry of Finance.

33. Retained profit

Item	2009	2008
Retained profit before adjustment at the end of previous year	961,276,515.70	740,478,319.62
Total adjustment in retained profit at the beginning of year (For increase +, decrease -)	–	–
Retained profit after adjustment at the beginning of year	961,276,515.70	740,478,319.62
Add: Net profit	3,760,226,845.68	3,070,838,346.40
Less: Provision for statuary surplus reserve	376,022,684.57	307,083,834.64
Provision for free surplus reserve	–	–
Provision for general reserve	1,581,577,348.84	2,080,956,315.68
Ordinary shares dividend payable	648,768,681.08	462,000,000.00
Ordinary shares dividend transferred into share capital	–	–
Retained profit at the end of year	2,115,134,646.89	961,276,515.70

After the review and approval by the 2008 General Meeting of Shareholders on 11 May 2009, the Company set aside RMB307,083,834.64 statuary surplus reserve by the proportion of 10% of audited 2008 net profit worthy of RMB3,070,838,346.40 in accordance with the PRC GAAP and set aside general reserve RMB2,080,956,315.68; the Company distributed divided RMB648,768,681.08 by RMB1.30 (including tax) per 10 shares, on the basis of 4,990,528,316 shares.

After the review and approval by the eighteenth meeting of fifth Board of Directors on 24 March 2010, the Company set aside RMB376,022,684.57 statuary surplus reserve by the proportion of 10% of audited 2009 net profit worthy of RMB3,760,226,845.68 in accordance with the PRC GAAP and set aside general reserve RMB1,581,577,348.84; the Company distributed dividend RMB648,768,681.08 by RMB1.30 (including tax) per 10 shares, on the basis of 4,990,528,316.

34. Net interest income

Item	2009	2008
Interest income	32,506,467,609.37	37,394,720,327.34
Due from banks and other financial institutions	20,225,561.26	49,614,540.26
Balances with central banks	1,099,704,914.30	1,284,972,500.08
Placements with banks and other financial institutions	271,727,144.87	315,044,803.19
Loans and advances to customers	20,970,069,102.33	23,791,100,649.54
Of which: Personal loans and advances	2,014,355,903.49	2,652,487,255.48
Corporate loans and advances to customers	18,671,441,585.78	20,326,929,723.38
Discounted bills	284,271,613.06	811,683,670.68
Reverse repurchase agreements	7,422,985,440.99	8,960,953,456.61
Interest income on bonds	2,721,755,445.62	2,993,034,377.66
Of which: impaired interest income on financial assets	220,831,494.41	231,144,700.14
Interest expenses	16,699,280,002.93	20,909,929,206.87
Due to banks	1,466,731,145.61	1,643,499,841.55
Borrowings from central banks	20,796.22	69,041.70
Placements from banks and other financial institutions	190,910,722.17	375,776,289.20
Deposits from customers	8,280,916,821.10	10,757,145,584.62
Repurchase agreements	5,721,116,316.16	6,906,122,593.17
Bonds issuance	1,039,584,201.67	1,227,315,856.63
Net interest income	**15,807,187,606.44**	**16,484,791,120.47**

35. Net fee and commission income

Item	2009	2008
Fee and commission income	1,303,901,402.45	1,063,495,557.00
Settlement and clearing fee	38,883,329.81	42,203,895.80
Agency business fee	231,395,289.83	198,348,554.58
Credit commitment fee and commission	294,582,793.39	278,538,348.44
Bank card fee	186,711,570.65	128,308,443.82
Consultant and advisory fee	362,321,997.61	213,570,965.35
Custody and other entrusted business commission	35,582,484.07	118,936,922.26
Wealth management fee	69,712,976.69	30,627,169.09
Others	84,710,960.40	52,961,257.66
Fee and commission expense	279,466,871.09	240,695,859.46
Net fee and commission income	**1,024,434,531.36**	**822,799,697.54**

36. Investment income

Item	2009	2008
Held-for-trading bonds investment income	87,052,216.15	(45,710,607.19)
Available-for-sale bonds investment income	24,324,902.80	(274,594.05)
Held-to-maturity investments income	(15,815,960.00)	–
Precious metal investment income	3,606,489.92	1,685,560.31
Long-term equity investment income	2,129,298.90	1,019,652.58
Total	**101,296,947.77**	**(43,279,988.35)**

The Company calculated the interest income acquired during the holding period of bonds investment under the item of “interest income” and correspondingly adjusted the numbers of the same period of previous year for presentation.

37. Income from changes in fair value

Item	2009	2008
Held-for-trading financial instruments	(76,957,413.79)	54,396,973.96
Derivative financial instruments	31,621,000.63	14,714,654.98
Precious metal	1,467,019.68	(1,453,398.15)
Total	**(43,869,393.48)**	**67,658,230.79**

38. Other business income

Item	2009	2008
Rental	42,509,286.55	44,895,318.20
Others	70,758,069.12	98,571,177.66
Total	**113,267,355.67**	**143,466,495.86**

39. Business tax and surcharges

Item	Payment standard	2009	2008
Business tax	5% of taxable operating income	1,125,263,930.32	1,247,389,966.22
Urban construction tax	7% of taxable turnover tax	76,842,691.61	84,585,406.80
Education fee and surcharges	3% of taxable turnover tax	40,237,349.23	44,909,973.32
Others		5,027,331.35	5,473,540.90
Total		**1,247,371,302.51**	**1,382,358,887.24**

40. Business and administrative fee

Item	2009	2008
Electronic equipment operation fee	217,474,168.06	227,639,268.83
Security and defense fee	61,072,713.66	43,914,482.76
Employee cost	3,432,231,041.74	3,469,103,009.99
Depreciation and amortization	922,546,081.81	785,011,092.96
Others	3,054,568,762.49	2,766,401,083.69
Total	**7,687,892,767.76**	**7,292,068,938.23**

41. Assets impairment losses

Item	2009	2008
Expenses in allowances for bad debts	81,121,853.38	84,341,283.57
Expenses in allowances for losses on loans	3,329,899,320.85	4,507,400,785.59
Expenses in allowances for impairment on placements with banks and other financial institutions	(10,964,554.92)	(7,083,108.21)
Expenses in allowances for impairment on mortgaged assets to be processed	56,779,519.58	62,944,414.14
Expenses in allowances for impairment on available-for-sale investments	(28,537,935.93)	139,559,968.36
Expenses in allowance for impairment on held-to-maturity investments	(51,282,202.05)	107,145,939.13
Total	**3,377,016,000.91**	**4,894,309,282.58**

42. Non-operating income

Item	2009	2008
Settlement and fine income	33,768.00	104,996.59
Gains on disposal of fixed assets	940,826.47	1,469,497.07
Gains on disposal of mortgaged assets	24,628,722.42	1,425,703.17
Long standing deposits	10,999,067.81	16,388,024.25
Subsidy income	2,572,700.00	325,000.00
Default security deposit income	8,200,000.00	–
Others	4,641,822.81	3,532,189.56
Total	**52,016,907.51**	**23,245,410.64**

43. Non-operating expenses

Item	2009	2008
Donations expenses	12,540,000.00	16,518,009.00
Loss on disposal of fixed assets	4,638,677.88	5,108,384.15
Fine and late fee expenses	2,098,491.32	901,831.92
Loss on disposal of mortgaged assets	12,542,885.27	2,553,835.00
Anticipated liabilities of pending litigation	1,377,064.66	6,985,182.73
Others	2,498,517.59	18,524,643.33
Total	**35,695,636.72**	**50,591,886.13**

44. Income tax expense

Item	2009	2008
Current income tax calculated under the tax law and related provisions	1,481,855,064.77	1,220,352,509.82
Adjustment on deferred income tax	(414,495,659.48)	(284,647,900.98)
Total	**1,067,359,405.29**	**935,704,608.84**

The relationship between income tax expense and total profit is presented as follows:

Item	2009	2008
Total accounting profit	4,827,586,250.97	4,006,542,955.24
Add: increase in income for tax	5,690,162,439.22	4,812,060,169.57
Less: decrease in come for tax	4,590,328,431.12	3,937,193,085.55
Taxable income	5,927,420,259.07	4,881,410,039.26
Income tax payable	1,481,855,064.77	1,220,352,509.82
Add: increase in deferred income tax liabilities	(113,632,429.69)	118,143,298.60
Less: increase in deferred income tax assets	300,863,229.79	402,791,199.58
Income tax (earings)	1,067,359,405.29	935,704,608.84

45. Calculation process of basic earnings per share and diluted earnings

(1) Basic earnings per share

Item	Code	2009	2008
Net profit attributable to ordinary shareholders of the Company during the reporting period	P1	3,760,226,845.68	3,070,838,346.40
Extraordinary profit and loss attributable to ordinary shareholders of the Company during the reporting period	F	62,139,624.36	10,537,394.55
Net profit attributable to ordinary shareholders of the Company after deduction of extraordinary profit and loss during the reporting period	P2=P1-F	3,698,087,221.32	3,060,300,951.85
Total numbers of shares at the beginning of the period	S0	4,990,528,316.00	4,200,000,000.00
Increased numbers of shares due to conversion of capital reserve into share capital or share dividend distribution during the reporting period	S1	–	–
Increased numbers of shares due to new issue of shares or debt-to-equity swap during the reporting period	Si	–	790,528,316.00
Number of months for increased shares from next month until the end of the reporting period	Mi	–	2.5
Decreased numbers of shares due to repurchase during the reporting period	Sj	–	–
Number of months for decreased shares from next month until the end of the reporting period	Mj	–	–
Shrunk numbers of shares during the reporting period	Sk	–	–
Number of months during the reporting period	M0	12	12
Weighted average ordinary shares issued outward	S=S0+S1+Si*Mi/M0-Sj*Mj/M0-Sk	4,990,528,316.00	4,364,693,399.00
Basic earnings per share attributable to the shareholders of the Company	Y1=P1/S	0.7535	0.7036
Basic earnings per share attributable to the shareholders of the Company after deduction of extraordinary profit and loss	Y2=P2/S	0.7410	0.7011

(2) Diluted earnings per share

As at 31 December 2009, the Company has no potential diluted ordinary share.

46. Other comprehensive income

Item	2009	2008
I. Gains/losses from available-for-sale financial assets	(32,245,300.34)	489,150,665.18
Less: Income tax influence from available-for-sale financial assets	(8,061,325.09)	122,287,666.37
Add: Net amount recognized in other comprehensive income in earlier stage and transferred into profit and loss	(274,445,864.43)	9,995,931.34
Subtotal	**(298,629,839.68)**	**376,858,930.15**
II. Shares enjoyed in other comprehensive income of invested companies in accordance with the equity accounting method	–	–
Less: Income tax influence from shares enjoyed in other comprehensive income of invested companies in accordance with the equity accounting method	–	–
Add: Net amount recognized in other comprehensive income in earlier stage and transferred into profit and loss	–	–
Subtotal	**–**	**–**
III. Gains/(losses) from cash flow hedging instruments	–	–
Less: Income tax influence from cash flow hedging instruments	–	–
Add: Net amount recognized in other comprehensive income in earlier stage and transferred into profit and loss	–	–
Add: Adjustment in amount transferred into initial confirmed amount of hedged projects	–	–
Subtotal	**–**	**–**
IV. Foreign currency translation reserve	–	–
Less: Net amount on disposal of overseas operation through profit and loss	–	–
V. Others	–	–
Less: Income tax influence from others recognized in other comprehensive income	–	–
Add: Net amount recognized in other comprehensive income in earlier stage and transferred into profit and loss	–	–
Subtotal	(298,629,839.68)	376,858,930.15
Total	**(298,629,839.68)**	**376,858,930.15**

47. Off-cash-flow-statement supplementary materials

(1) Off-cash-flow-statement supplementary materials

Supplementary materials	2009	2008
1. Net profit adjusted into cash flows from operating activities:		
Net profit	3,760,226,845.68	3,070,838,346.40
Add: Allowance for impairment losses on assets	3,378,393,065.57	4,901,294,282.58
Depreciation on fixed assets	351,627,297.74	308,364,799.48
Amortization on long-term unamortized expenses	570,918,784.07	476,646,293.48
Loss on disposal of fixed assets, intangible assets and other long-term assets	3,697,851.41	3,638,887.08
Loss on retirement of fixed assets	–	–
Loss in changes in fair value	43,869,393.48	(67,658,230.79)
Loss in investments	(101,296,947.77)	43,279,988.35
Deferred income tax	(414,495,659.48)	284,647,900.98
Decrease in operating receivable	(160,468,388,758.51)	(81,984,828,226.92)
Increase in operating payable	112,806,537,829.31	125,464,737,252.25
Unrealized foreign exchange loss	(2,447,687.83)	200,876,610.86
Others	–	–
Net cash flows from operating activities	(40,071,357,986.33)	52,701,837,903.75
2. Material investment and financing activities not involving cash receipt and payment:		
Conversion of debt into capital	–	–
Convertible corporate bonds matured within one year	–	–
Rent of fixed assets through financing	–	–
3. Changes in cash and cash equivalents, net		
Balance of cash at the end of the period	1,823,537,617.54	1,589,095,851.79
Less: Balance of cash at the beginning of the period	1,589,095,851.79	1,802,577,717.22
Add: Balance of cash equivalents at the end of the period	57,165,749,399.41	90,691,183,552.71
Less: Balance of cash equivalents at the beginning of the year	90,691,183,552.71	51,267,053,312.60
Net increase in cash and cash equivalents	(33,290,992,387.55)	39,210,648,374.68

(2) Composition of cash and cash equivalents

Item	2009	2008
I. Cash	1,823,537,617.54	1,589,095,851.79
II. Cash equivalents	57,165,749,399.41	90,691,183,552.71
Of which: Balances with central banks	24,802,371,840.02	72,726,913,286.30
Due from banks and other financial institutions matured in three months	32,363,377,559.39	17,964,270,266.41
III. Balance of cash and cash equivalents at the end of the period	58,989,287,016.95	92,280,279,404.50

(3) Adjustment on cash on hand and balances with central banks as well as cash and cash equivalents

Cash and cash equivalents presented in cash flow statement include:	Amount
Cash on hand and balances with central banks at the end of the period	91,071,727,975.04
Less: Statuary reserves deposit with central banks	64,445,818,517.48
Add: Due from banks and other financial institutions matured in three months	32,363,377,559.39
Balance of cash and cash equivalents at the end of the period	58,989,287,016.95
Less: Balance of cash and cash equivalents at the beginning of the period	92,280,279,404.50
Increase/(decrease) in cash and cash equivalents	(33,290,992,387.55)

V. Contingencies and commitments

1. Credit commitments

Item	31 December 2009	31 December 2008
Bank acceptance	149,350,211,883.21	137,072,956,400.75
L/C opened	11,218,361,541.55	6,034,873,892.42
L/G opened	4,844,866,895.60	4,936,117,826.47
Unused Credit card limit	9,724,767,085.71	6,602,635,358.57

The Company has the commitments on loan limit at any time point, including the unused credit limit provided by the Company to the credit card customers and the signed loan limit. Pursuant to the opinions of Management of the Company, the Company shall not undertake the risk of unused credit limit as the signed loan limit is irrevocable.

2. Entrustment transaction

(1) Entrusted deposits and loans

Item	31 December 2009	31 December 2008
Entrusted loans	17,076,753,249.55	11,109,694,052.06
Entrusted deposits	17,076,753,249.55	11,109,694,052.06

(2) Entrusted investments

Item	31 December 2009	31 December 2008
Agency business assets	11,016,177,770.51	3,352,760,000.00
Agency business liabilities	11,016,177,770.51	3,352,760,000.00

3. Pending litigation

As at 31 December 2009, there were 10 pending litigation cases with above RMB10 million and the Company as the defendant, involving object RMB154.18 million. As for the possible losses suffered as the defendant of the pending litigation cases, the Company has set aside corresponding provisions.

4. Operating lease commitments

The Company rents the place of business and office buildings and pays the rental as required. The Company must pay the minimum lease payment during the period as follows:

Item	31 December 2009	31 December 2008
Less than 1 year	450,328,462.88	383,720,936.46
1-5 years	1,278,207,408.46	1,058,216,553.06
Over 5 years	608,255,686.49	541,910,116.92
Total	**2,336,791,557.83**	**1,983,847,606.44**

5. Capital commitments

Capital commitments signed but not confirmed in the financial statements	31 December 2009	31 December 2008
Commitment to purchase long-term assets	298,536,408.36	88,135,743.73
External investment commitments (Note)	100,000,000.00	–

Note: On 27 December 2009, the sixteenth meeting of fifth Board of Directors of the Company reviewed and approved the Proposal on Inviting the Board of Directors to authorize the Senior Management to Handle the Matters Relating to Funding and Establishing the Daxing Hua Xia Rural Bank. The Board of Directors agreed that the Company as the sole contributor would invest RMB100 million to establish Beijing Daxing Hua Xia Rural Bank Co., Ltd. In January 2010, the Company received the Reply of Beijing Office on Preparation to Establish Beijing Daxing Hua Xia Rural Bank Co., Ltd (J.Y.J.F [2009] No. 869) by the CBRC Beijing Office, and the Company was approved to establish the Beijing Daxing Hua Xia Rural Bank Co., Ltd.

V. Related parties relation and transaction

1. Related parties

The related parties of the Company include: parties that could directly, indirectly, jointly hold or control over 5% shares or voting rights of the Company; the key management personnel and their close relatives, legal person or other organizations that could directly, indirectly, jointly control or cause material impacts.

(1) Major related shareholders

As at 31 December 2009, the major related shareholders' name and shareholding of the Company are as follows: (Unit: 10,000 shares)

Shareholders' name	Shares	Shareholding percentage
Shougang Corporation	69,764.69	13.98%
State Grid Corporation of China	59,592.04	11.94%
DEUTSCHE BANK AKTIENGESELLSCHAFT	56,237.35	11.27%
Hongta Tobacco (Group) Co., Ltd.	29,960.00	6.00%

In September 2009, the Company received the Reply on Issues Relating to Shareholding Transfer of Hua Xia Bank Co., Ltd (G..Z.Ch.Q [2009] No. 1004) by the State-owned Assets Supervision and Administration Commission of State Council, agreeing that 595,920,393 shares (11.94% of total share capital) held by the State Grid Corporation of China could be transferred to SGCC Asset Management Co., Ltd. As at 31 December 2009, the above-mentioned shareholding transfer has not been replied by the CBRC and shareholding ownership transfer registration has not been processed.

In November 2009, the Company got known that DEUTSCHE BANK AKTIENGESELLSCHAFT accepted 171,200,000 shares of the Company (3.43% of the total share capital) held by SAL. OPPENHEIM JR. & CIE. KOMMANDITGESELLSCHAFT AUF AKTIEN through agreement. As at 31 December 2009, the above-mentioned shareholding transfer has not been replied by the CBRC and shareholding ownership transfer registration has not been processed.

(2) Overview of major related shareholders

Name of related party	Economic nature	Register place	Primary business	Legal representative
Shougang Corporation	Wholly state-owned	Beijing	Industry, construction, geological exploration, transportation, etc.	Zhu Jimin
State Grid Corporation of China	Wholly state-owned	Beijing	Industrial investment, operation and management; electricity purchase and sales, electricity transaction and dispatch among regional grids; investment, construction and operation of relevant cross-region electric transmission and transformation and grid building, etc.	Liu Zhenya
DEUTSCHE BANK AKTIENGESELLSCHAFT	Limited liability company	Frankfurt, Federal Republic of Germany	Engaged in various banking business, providing services in terms of capital, fund management, real estate finance, financing, research and advisory, etc.	Josef Ackerman
Hongta Tobacco (Group) Co., Ltd.	Wholly state-owned	Yuxi	Manufacturing, production and sales of tobacco, manufacturing and sales of tobacco equipment, purchase and sales of tobacco supporting materials.	Li Suiming

(3) Registered capital and its changes of major related shareholders (Unit: RMB10,000)

Name of related party	1 January 2009	Increase during the period	Decrease during the period	31 December 2009
Shougang Corporation	726,394	–	–	726,394
State Grid Corporation of China	20,000,000	–	–	20,000,000
DEUTSCHE BANK AKTIENGESELLSCHAFT	EUR1.46 billion	EUR129.4 million	–	158,940万欧元
Hongta Tobacco (Group) Co., Ltd.	600,000	–	–	600,000

(4) Other related parties

Name of related parties	Relation with the Company
Xinbang Investment Co., Ltd	Same pertinent key management personnel
Bodi Investment Co., Ltd	Same pertinent key management personnel

2. Related party transaction (Unit: RMB10,000)

The related party transaction of the Company is conducted in accordance with the commercial principle and based on the condition that is not better than that of similar non-related party transactions.

(1) Balance of credit assets (including loans, discount, bill of draft, acceptance, L/C and L/G) Related shareholders and their related companies

Name of related party	31 December 2009	31 December 2008
Shougang Corporation	111,300.00 (Balance of credit assets after deduction of RMB45 million security deposits	129,204.48 (Balance of credit assets after deduction of RMB26,220.1 thousand security deposits
State Grid Corporation of China	4,746.58 –	763.45 (Balance of credit assets after deduction of RMB170.8 thousand security deposits
Hongta Tobacco (Group) Co., Ltd.	1,500.00	5,700.00

(2) Deposits (including deposits from customers and due to banks and other financial institutions)

A. Related shareholders and their related companies

Name of related party	31 December 2009	31 December 2008
Shougang Corporation	235,253.95	467,017.47
State Grid Corporation of China	4,844.23	68,759.05
Hongta Tobacco (Group) Co., Ltd.	54,870.88	89,191.90

B. Other enterprises of same key management personnel

Name of related party	31 December 2009	31 December 2008
Xinbang Investment Co., Ltd	–	1.24
Bodi Investment Co., Ltd	396.76	–

(3) Bonds purchase

Name of related party	31 December 2009	31 December 2008
Shougang Corporation	77,968.00	–
State Grid Corporation of China	40,000.00	30,000.00
DEUTSCHE BANK AKTIENGESELLSCHAFT	5,907.02	–

(4) Placements from banks and other financial institutions

Name of related party	31 December 2009	31 December 2008
DEUTSCHE BANK AKTIENGESELLSCHAFT	2,994.74	2,816.36

(5) Derivative financial instruments

Name of related party	Category	Non-hedging instruments at 31 December 2009		
		Nominal amount	Fair value	
			Assets	Liabilities
DEUTSCHE BANK AKTIENGESELLSCHAFT	Interest rate swap	–	–	–

Name of related party	Category	Non-hedging instruments at 31 December 2008		
		Nominal amount	Fair value	
			Assets	Liabilities
DEUTSCHE BANK AKTIENGESELLSCHAFT	Interest rate swap	409,040.51	–	31,613.72

(6) Interest income

Item	2009	2008
Shougang Corporation	6,584.74	4,215.31
State Grid Corporation of China	1,810.75	1,550.93
DEUTSCHE BANK AKTIENGESELLSCHAFT	36.07	13.51
Hongta Tobacco (Group) Co., Ltd.	164.56	394.42
Total	**8,596.12**	**6,174.17**

(7) Interest expenses

Item	2009	2008
Shougang Corporation	1,821.88	1,679.35
State Grid Corporation of China	99.27	542.63
Hongta Tobacco (Group) Co., Ltd.	279.25	1,339.62
Bodi Investment Co., Ltd	3.43	–
Total	**2,203.83**	**3,561.60**

(8) Bond investment income

Item	2009	2008
Shougang Corporation	(215.96)	–
DEUTSCHE BANK AKTIENGESELLSCHAFT	–	8.53
Total	**(215.96)**	**8.53**

(9) Comprehensive credit

Shougang Corporation

The 2008 General Meeting of Shareholders of the Company on 11 May 2009 reviewed and approved to grant RMB3.8 billion comprehensive credit limit to Shougang Corporation and its related enterprises and the credit validity period was 1 year.

State Grid Corporation of China

The 2008 General Meeting of Shareholders of the Company on 11 May 2009 reviewed and approved to grant RMB3.272 billion comprehensive credit limit to State Grid Corporation of China and its related enterprises and the credit validity period was 1 year.

DEUTSCHE BANK AKTIENGESELLSCHAFT

The 12th meeting of the fifth Board of Directors of the Company on 17 April 2009 reviewed and approved to grant USD110 million comprehensive credit limit to Deutsche Bank Aktiengesellschaft, of which, the treasury operation limit was USD100 million, the trade financing limit was USD10 million and the credit validity period was 1 year.

(10) Remuneration

Item	2009	2008
Key management personnel	2,005.10	1,939.30

3. Unsettled amount of related party transactions (Unit: RMB10,000)

Name of related party	Account nature	31 December 2009	Percentage	31 December 2008	Percentage
Shougang Corporation	Other liabilities	–	–	350,979.07	52.57%
Shougang Corporation	Interest receivable-Interest of bonds receivable	1,493.59	1.75%	–	–
State Grid Corporation of China	Interest receivable-Interest of bonds receivable	315.33	0.37%	190.93	0.20%
DEUTSCHE BANK AKTIENGESELLSCHAFT	Interest receivable-Interest of bonds receivable	7.29	0.01%	–	–
DEUTSCHE BANK AKTIENGESELLSCHAFT	Placements from banks and other financial institutions	2,994.74	0.49%	2,816.36	0.37%
DEUTSCHE BANK AKTIENGESELLSCHAFT	Derivative financial liabilities	–	–	31,613.72	68.97%

VII. Risk management

1. Credit risk

Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to the bank, when commercial bank operates credit, inter-bank lending and investment businesses. The credit risk of the Company mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans, inter-bank lending, investment in bonds, bill acceptance, L/C, and L/G.

Before granting credit to single customer, the Company will conduct credit appraisal first and regularly inspect the credit limit granted. The means for credit risk management include acquisition of collateral and warranty. As for the off-balance-sheet credit commitment, the Company will charge security deposit to reduce the credit risk in general.

(1) Loan centralization

Loan centralization: as at 31 December 2009, the balance of loans and allowances to top 10 customers of the Company was RMB14,978,875,500, accounting for 3.48% of the total loans and allowances granted.

Sector centralization: refer to [Notes IV. 8 (2)] Distribution of granted loans and allowances by sectors.

Regional centralization: refer to [Notes IV. 8 (3)] Distribution of granted loans and allowances by regions.

The loans of the Company mainly center in Beijing, Jiangsu, Zhejiang and Shandong. First, in recent years, the Company focused on the business development of branches in economically developed regions and achieved apparent results. Second, the Company set up branches in these regions in earlier time and had relatively larger percentage, according with the law of banking development. Thirdly, the economic aggregate of these regions were large and provided sound environment and opportunity for rapid business development of the Company.

(2) Derivative financial instruments

All the derivative financial instruments contracts held by the Company are transacted by the Head Office, credit risk lies on whether the counterparty could pay in time according to the terms of the contract and their fair value is the amount of corresponding assets exchanged or repayment for the liabilities.

To reduce the credit risk brought by the derivative financial instruments, the Company signed major offset contract with some counterparties. As for the evaluation and control standard for credit risk of derivative financial instruments, the Company applied the same risk control standard with the other transactions.

(3) Off-balance-sheet business risk

The Company includes the off-balance-sheet business into unified credit management. As for the off-balance-sheet businesses such as bank acceptance bills, L/C and L/G, the Company requires real trading background, charges security deposit in corresponding proportion based on the credit status of customers and business risk level, and requires the effective guarantee for the other parts. The Company strictly controls the high risk off-balance-sheet business such as the financing category of L/G.

(4) Credit risk exposure

Without regard to the available collateral or other credit enhancement, the amounts best representing the maximum credit exposure on the balance sheet date are presented as follows:

Item	31 December 2009	31 December 2008
Due from central banks	89,248,190,357.50	124,844,256,830.05
Due from banks and lending to banks and other financial institutions	32,363,377,559.39	22,904,270,266.41
Held-for-trading financial assets	765,724,114.14	4,817,684,347.61
Financial assets purchased under resale agreement	209,952,003,989.19	135,341,883,856.87
Interest receivable	1,574,324,472.59	1,833,481,421.15
Loans and Advances	419,452,246,994.81	345,667,973,916.52
Available-for-sale financial assets	11,640,738,471.95	17,946,796,549.07
Held-to-maturity Investments	69,228,616,535.55	69,097,348,530.39
Other assets	2,255,366,271.83	1,116,150,823.13
On-balance-sheet credit risk exposure	836,480,588,766.95	723,569,846,541.20
Off-balance-sheet credit risk exposure	175,138,207,406.07	154,646,583,478.21
Maximum credit risk exposure	1,011,618,796,173.02	878,216,430,019.41

The maximum credit risk exposure of financial assets measured in fair value presented in the above table stands for the current maximum credit risk exposure rather than the one after changes in fair value in the future.

(5) Collateral and other credit enhancement

The type and amount of collateral is determined with regard to the credit risk assessment of the counterparty. The Company takes the acceptable type and its value as the specific implementation standard.

The types of collaterals accepted by the Company are as follows:

A. Purchase transaction under resale agreement: bills, bonds, and loans, etc;

B. Corporate loans: house property, machinery equipments, land use rights, deposit receipts, and share rights, etc; and

C. Personal loans: house property, deposit receipts, etc.

The Management inspects the value of collaterals and will require the counterparty to increase the collateral if necessary.

(6) Credit quality information of financial assets

A. Credit quality of various assets with credit risk

31 December 2009	Not overdue and unimpaired financial assets	Overdue but unimpaired financial assets	Impaired financial assets	Impairment provisions	Total
Due from central banks	89,248,190,357.50	–	–	–	89,248,190,357.50
Due from banks	32,363,377,559.39	–	138,412,125.53	138,412,125.53	32,363,377,559.39
Held-for-trading financial assets	765,724,114.14	–	–	–	765,724,114.14
Financial assets purchased under resale agreement	209,952,003,989.19	–	–	–	209,952,003,989.19
Interest receivable	1,574,324,472.59	–	–	–	1,574,324,472.59
Loans and Advances	422,737,953,036.03	468,751,680.80	7,018,879,537.25	10,773,337,259.27	419,452,246,994.81
Available-for-sale financial assets	11,519,153,019.57	–	160,263,717.68	38,678,265.30	11,640,738,471.95
Held-to-maturity Investments	69,085,046,218.78	–	194,096,162.87	50,525,846.10	69,228,616,535.55
Other assets	2,178,481,444.74	–	599,203,592.68	522,318,765.59	2,255,366,271.83
Total	839,424,254,211.93	468,751,680.80	8,110,855,136.01	11,523,272,261.79	836,480,588,766.95

31 December 2008	Not overdue and unimpaired financial assets	Overdue but unimpaired financial assets	Impaired financial assets	Impairment provisions	Total
Due from central banks	124,844,256,830.05	–	–	–	124,844,256,830.05
Due from banks	22,904,270,266.41	–	149,376,680.45	149,376,680.45	22,904,270,266.41
Held-for-trading financial assets	4,817,684,347.61	–	–	–	4,817,684,347.61
Financial assets purchased under resale agreement	135,341,883,856.87	–	–	–	135,341,883,856.87
Interest receivable	1,833,481,421.15	–	–	–	1,833,481,421.15
Loans and Advances	346,731,868,302.80	1,196,143,956.46	7,549,825,677.19	9,809,864,019.93	345,667,973,916.52
Available-for-sale financial assets	17,853,940,020.05	–	231,099,624.80	138,243,095.78	17,946,796,549.07
Held-to-maturity Investments	68,972,200,321.66	–	230,416,221.24	105,268,012.51	69,097,348,530.39
Other assets	999,458,312.68	–	506,607,145.47	389,914,635.02	1,116,150,823.13
Total	724,299,043,679.28	1,196,143,956.46	8,667,325,349.15	10,592,666,443.69	723,569,846,541.20

The Company set aside sufficient allowances for impaired loans. Some overdue but unimpaired loans were mainly due to short-term shortage of funds of customers and without objective impairment evidence, so the Company did not classify it into impaired loans.

Overdue financial assets refer to the financial assets with principal or interest overdue for 1 day or above.

B. Analysis on period of overdue but unimpaired financial assets

Item	31 December 2009 Less than 1 month overdue	1-2 months overdue	2-3 months overdue	Over 3 months overdue	Total
Corporate loans	304,170,000.00	–	26,292,800.00	100,000,000.00	430,462,800.00
Personal loans	8,167,074.77	19,280,984.04	10,840,821.99	–	38,288,880.80
Total	312,337,074.77	19,280,984.04	37,133,621.99	100,000,000.00	468,751,680.80

Item	31 December 2008 Less than 1 month overdue	1-2 months overdue	2-3 months overdue	Over 3 months overdue	Total
Corporate loans	420,842,390.52	460,690,742.44	197,089,106.50	–	1,078,622,239.46
Personal loans	39,326,323.00	49,055,694.00	29,139,700.00	–	117,521,717.00
Total	460,168,713.52	509,746,436.44	226,228,806.50	–	1,196,143,956.46

C. Financial assets with terms of contract re-agreed

The book value of overdue or impaired financial assets with terms of contract re-agreed is as follows:

Item	31 December 2009	31 December 2008
Loans and advances	330,851,345.88	684,518,264.16

(7) Assessment value of collaterals held corresponding with various financial assets during the reporting period

On 31 December 2009, the fair value amount of collaterals of confirmed impaired or overdue loans and allowances held by the Company was RMB8,426,888,200 (31 December 2008: RMB9,545,340,100). These collaterals include land use rights, house property, machinery equipments and other assets.

(8) Disposal of collaterals and acquired mortgaged assets during the reporting period

During the reporting period, the Company acquired mortgaged assets worth of RMB53,139,200, mainly including land use rights, house property and share rights, and disposed mortgaged assets of RMB134,163,800.

2. Liquidity risk

Liquidity risk refers to the risk the bank confronts with, if the bank could not meet the requirements of deposit withdrawal and normal and reasonable loans of customers or other instant cash requirements. If the unbalance of total assets and liabilities or unbalance of period structure occurs, and the bank could not finance the desired fund by reasonable cost, causing insufficient cash payment to the customers, this will lead to the liquidity risk and even possibly the run-on banks risk if seriously. The negative factors that may affect the liquidity of the Company primarily include: large increase in credit demand, large performance of credit commitments, large increase of deposits and difficulty in recovering matured loans. Besides, adjustment of deposit reserve ratio by PBOC, sharp changes in domestic and foreign interest rates, financing difficulty in monetary market and so on will also have negative impact on the liquidity of the Company.

The Company set up the Asset & Liabilities Management Committee at the Head Office and branches level, responsible for preparation, organizations and implementation of the administrative policies on liquidity risk, established multi-channel of financing mechanism, and designed a series of daily liquidity monitoring indicator system complying with the reality of the Company, in accordance with the indicator system on liquidity risk monitoring by regulatory departments and the applicability principle. Meanwhile, taking into account both the benefits and liquidity, the Company held some government loans and bills of central bank in the assets portfolio, which could not only achieve stable investment income, but also sell off or repurchase in the tier-2 market at any time to fulfill the liquidity requirements.

On 31 December 2009, the analysis on the financial assets and liabilities of the Company by residual maturity date were as follows:

(Unit: RMB10,000)

Assets item	Overdue	Timely repayment	Less than 3 months	3 months -1 year	1-5 years	Over 5 years	Total
Cash on hand and amounts due from the central bank	–	9,107,173	–	–	–	–	9,107,173
Due from banks	–	517,614	429,748	–	–	–	947,362
Placements with other banks and financial institutions	–	–	2,288,976	–	–	–	2,288,976
Financial assets purchased under resale agreement	–	–	15,567,015	5,428,185	–	–	20,995,200
Loans and Advances	169,343	–	5,668,437	17,377,521	13,435,193	5,294,731	41,945,225
Held-for-trading financial assets	–	76,572	–	–	–	–	76,572
Available-for-sale financial assets	–	1,164,074	–	–	–	–	1,164,074
Held-to-maturity Investments	–	–	489,169	1,313,616	2,479,150	2,640,927	6,922,862
Other assets	–	53	83,646	213,077	479,439	321,984	1,098,199
Total assets	**169,343**	**10,865,486**	**24,526,991**	**24,332,399**	**16,393,782**	**8,257,642**	**84,545,643**

Liabilities item	Overdue	Timely repayment	Less than 3 months	3 months -1 year	1-5 years	Over 5 years	Total
Customer deposits	–	30,560,335	13,857,081	11,010,950	2,729,915	9,558	58,167,839
Financial assets sold under repurchase agreement	–	–	7,440,103	3,335,748	–	–	10,775,851
Due from banks and other financial institutions	–	4,920,133	2,969,744	317,849	630,000	–	8,837,726
Bonds payable	–	–	–	425,000	1,562,000	400,000	2,387,000
Other liabilities	–	112,423	732,614	419,683	57,270	31,818	1,353,808
Total liabilities	–	35,592,891	24,999,542	15,509,230	4,979,185	441,376	81,522,224
On-balance-sheet liquidity, net	169,343	(24,727,405)	(472,551)	8,823,169	11,414,597	7,816,266	3,023,419

On 31 December 2008, the analysis on the financial assets and liabilities of the Company by residual maturity date were as follows:

(Unit: RMB10,000)

Assets item	Overdue	Timely repayment	Less than 3 months	3 months -1 year	1-5 years	Over 5 years	Total
Cash on hand and amounts due from the central bank	–	12,643,335	–	–	–	–	12,643,335
Due from banks	–	660,927	13,500	–	–	–	674,427
Placements with other banks and financial institutions	–	–	1,122,000	494,000	–	–	1,616,000
Financial assets purchased under resale agreement	–	–	11,354,512	2,179,676	–	–	13,534,188
Loans and Advances	229,558	–	6,507,727	18,515,643	6,090,888	3,222,982	34,566,798
Held-for-trading financial assets	–	481,768	–	–	–	–	481,768
Available-for-sale financial assets	–	1,794,680	–	–	–	–	1,794,680
Held-to-maturity Investments	–	–	530,638	1,116,987	2,990,611	2,271,499	6,909,735
Other assets	–	4,343	147,834	84,896	393,303	312,412	942,788
Total assets	**229,558**	**15,585,053**	**19,676,211**	**22,391,202**	**9,474,802**	**5,806,893**	**73,163,719**

Liabilities item	Overdue	Timely repayment	Less than 3 months	3 months -1 year	1-5 years	Over 5 years	Total
Liabilities							
Customer deposits	–	20,209,496	13,427,638	12,885,680	1,988,979	23,165	48,534,958
Financial assets sold under repurchase agreement	–	–	7,540,828	1,057,881	–	–	8,598,709
Due from banks and other financial institutions	–	4,777,782	1,411,122	2,361,328	920,000	–	9,470,232
Bonds payable	–	–	–	–	1,987,000	400,000	2,387,000
Other liabilities	–	186,524	883,625	299,408	49,694	11,433	1,430,684
Total liabilities	–	25,173,802	23,263,213	16,604,297	4,945,673	434,598	70,421,583
On-balance-sheet liquidity, net	229,558	(9,588,749)	(3,587,002)	5,786,905	4,529,129	5,372,295	2,742,136

3. Interest rate risk

Interest rate risk refers to the possibility for a bank to suffer decreased benefits or losses caused by the unfavorable changes in interest rate. As the major source of income for the domestic commercial banks is from interest margin between deposits and loans, changes in interest rate has direct impact on the bank's operation. At the present stage, domestic foreign-currency deposit and loan interest rate is basically represented as market interest rate and obviously affected by the market factors. RMB interest rate marketization process is speeding up. On 29 October 2004, PBOC increased the benchmark interest rates for deposit and loans, in the meantime further relaxed restrictions on the floating interval of RMB loans interest rate (without upper limit) and allowed the downward floating of RMB deposit interest rate. Along with the enhancement of marketization level of interest rate, the possibility of interest rate fluctuation increases.

The Company intensified the cost control in interest-payment liabilities management, established period and interest rate structure matching with the interest payment liabilities in interest-bearing assets management, optimized assets and liabilities portfolio management, and proactively developed intermediary business and non-interest rate sensitive financial products to reduce the impact of interest rate risk on the Company's operation.

As at 31 December 2009, the repricing dates or maturity dates (earlier ones) of assets and liabilities of the Company are as follows:

(Unit: RMB10,000)

Assets item	Overdue or bearing no interest	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Cash on hand and amounts due from the central bank	223,880	8,883,293	–	–	–	–	–	9,107,173
Due from banks	7,026	940,336	–	–	–	–	–	947,362
Placements with other banks and financial institutions	–	2,288,976	–	–	–	–	–	2,288,976
Financial assets purchased under resale agreement	–	20,995,200	–	–	–	–	–	20,995,200
Loans and Advances	169,343	37,166,702	775,935	788,734	91,368	146,466	2,806,677	41,945,225
Held-for-trading financial assets	–	76,572	–	–	–	–	–	76,572
Available-for-sale financial assets	–	1,164,074	–	–	–	–	–	1,164,074
Held-to-maturity Investments	–	2,122,286	943,341	673,604	336,313	261,391	2,585,927	6,922,862
Other assets	970,200	112,999	15,000	–	–	–	–	1,098,199
Total assets	**1,370,449**	**73,750,438**	**1,734,276**	**1,462,338**	**427,681**	**407,857**	**5,392,604**	**84,545,643**

Liabilities item	Overdue or bearing no interest	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Customer deposits	521,708	54,906,658	245,266	885,943	831,474	767,232	9,558	58,167,839
Financial assets sold under repurchase agreement	–	10,775,851	–	–	–	–	–	10,775,851
Due from banks and other financial institutions	2,995	8,204,731	630,000	–	–	–	–	8,837,726
Bonds payable	–	1,271,000	200,000	676,000	–	–	240,000	2,387,000
Other liabilities	921,254	383,994	15,575	419	419	419	31,728	1,353,808
Total liabilities	1,445,957	75,542,234	1,090,841	1,562,362	831,893	767,651	281,286	81,522,224
Interest rate risk exposure	(75,508)	(1,791,796)	643,435	(100,024)	(404,212)	(359,794)	5,111,318	3,023,419

The Company uses sensibility analysis to measure the possible impact of changes in interest rate on net interest income of the Company. The sensibility analysis of net interest income is calculated based on the above interest rate risk exposure of related assets and liabilities. The following table presents the sensibility analysis result based on the assets and liabilities on 31 December 2009. (Unit: RMB10,000)

Changes in basis points of interest rate	Sensibility of net interest income 31 December 2009
Up 100 basis points	30,989.27
Down 100 basis points	(30,989.27)

Sensibility analysis of equity is to predict the impact of changes in interest rate on changes in its corresponding equity, through revaluation on available-for-sale financial assets held at the end of the period. The Company mainly applied present value of basis points to measure the interest rate risk of available-for-sale financial assets, and the present value of basis point on 31 December 2009 was RMB2,610,800.

4. Foreign exchange risk

The Company mainly operates RMB business and foreign-currency business focuses on USD. Since 21 July 2005, China began to implement the managing floating exchange rate based on market supply and demand and adjusted referring to a basket of currencies, forming a more flexible RMB exchange rate mechanism.

The impacts of exchange rate risk on the Company's operation are mainly represented in: (1) the Company may hold uneven foreign exchange position so as to undertake the exchange rate risk; (2) the major source of foreign exchange fund of the Company is USD, and to meet the requirement of customers about small amount of foreign-currencies other than USD exchange purchase payment, the Company may need to purchase some foreign currencies in advance to guarantee the payment so as to confront with the exchange risk; (3) when the assets, liabilities and income booked in foreign-currency are converted into RMB, the bookkeeping base currency of the Company, the Company is faced with exchange rate translation risk.

As for the business varieties involving exchange risk, the Company strictly manages various links of development, launching and operation, and formulates necessary risk control system in terms of business authorization, exposure limits and process monitoring. As for the foreign exchange purchase and sales business, the Company divides into bank account and transaction account and the foreign exchange exposure of the whole bank is centrally managed by the Head Office.

As at 31 December 2009, the assets and liabilities of the Company presented by currency types are as follows (Unit: RMB10,000):

Item	RMB	RMB equivalent of USD	RMB equivalent of HKD	RMB equivalent of other currency types	Total
Cash on hand and amounts due from the central bank	9,040,560	51,317	8,066	7,230	9,107,173
Due from banks	492,851	217,055	126,991	110,465	947,362
Placements with other banks and financial institutions	2,256,190	30,721	–	2,065	2,288,976
Financial assets purchased under resale agreement	20,995,200	–	–	–	20,995,200
Loans and advances	41,492,508	424,725	5,941	22,051	41,945,225
Held-for-trading financial assets	27,724	46,566	–	2,282	76,572
Available-for-sale financial assets	1,142,123	18,985	–	2,966	1,164,074
Held-to-maturity Investments	6,804,872	109,737	1,761	6,492	6,922,862
Other assets	1,085,684	11,461	900	154	1,098,199
Total assets	83,337,712	910,567	143,659	153,705	84,545,643
Customer deposits	57,263,572	648,775	139,248	116,244	58,167,839
Financial assets sold under repurchase agreement	10,775,851	–	–	–	10,775,851
Due from banks and other financial institutions	8,709,942	121,721	2,143	3,920	8,837,726
Bonds payable	2,387,000	–	–	–	2,387,000
Other liabilities	1,308,602	11,765	183	33,258	1,353,808
Total liabilities	**80,444,967**	**782,261**	**141,574**	**153,422**	**81,522,224**
On-balance-sheet net position	**2,892,745**	**128,306**	**2,085**	**283**	**3,023,419**

The Company uses sensibility analysis to measure the possible impact of changes in exchange rate on profit and loss from foreign exchange. The following table presents the sensibility analysis result based on the assets and liabilities on 31 December 2009. (Unit: RMB10,000)

Currency type	Changes in foreign-currency exchange rate	Impact on profit before tax
USD	+/-5%	+/-6,415.37
HKD	+/-5%	+/-104.22

The above impact of changes in exchange rate on profit before tax is calculated based on the foreign exchange risk exposure of related assets and liabilities.

VIII. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. As for the financial assets or liabilities having active market, the Company determines their fair value with the quote in the active market. As for the financial instruments without active market, the Company determines their fair value with valuation techniques, including price used in recent market transaction by knowledgeable, willing parties, referring to the current fair value of other financial instruments sharing similar nature, discounted cash flow method, option pricing model and other techniques. As for the primarily acquired or connate financial assets or undertaken financial liabilities, the Company takes the market trading price as the basis to determine their fair value.

When market information can not be obtained, the Management will evaluate the credit risk, market fluctuation and relevance of the Company and counterparty. These changes in related assumptions will influence the fair value of the financial instruments.

The method and assumptions for fair value evaluation used by the Company regarding to the various financial assets and liabilities are as follows:

1. Financial assets at fair value through profit or loss

These include held-for-trading financial assets and financial assets at fair value and its changes recognized through profit or loss designated at the initial determination. Held-for-trading financial assets include acquired financial assets sold in short term and derivative financial instruments. As for this type of financial assets, follow-up measurement is at fair value, all realized and unrealized profit and loss are recognized through profit or loss, and fair value is equal to its book value.

2. Loans

The fair value of fixed interest rate loans is calculated through comparison of market interest rate in loan granting and current market interest rate applicable to similar loans. Interest rate of majority loans will be repriced in accordance with the changes in benchmark interest rate of PBOC every year, therefore its book value is its fair value. Credit quality changes of loans in the loan portfolio are not considered in determining the overall fair value, as credit risk impact has been represented in the allowances for losses on loans and deducted from the book value and fair value.

3. Held-to-maturity investments

As for the held-to-maturity investments in the active market, the Company adopts the quote in the active market to determine their fair value. If no active markets exist for them, the Company adopts valuation techniques to determine their fair value.

4. Due to customers

Fixed or floating interest rate is used for due to customers by their categories. The fair value of demand deposits and savings account without designated expiration date is the amount that can be paid to the customers at any time. As most time deposits are in short-term nature, its fair value is the same with the book value.

5. Other financial assets and liabilities

As for the other financial assets and liabilities matured within 12 months, assume that its book value is the fair value.

The above-mentioned methods and assumptions for fair value evaluation provide consistent calculation standard for the financial assets and liabilities of the Company. However, as other institutions may adopt different methods and assumptions, the fair value disclosed by various financial institutions does not have the absolute comparability.

IX. Assets management

To ensure the capital adequacy ratio meeting the regulatory requirement and support reasonable and sound development of various businesses on this basis, the Company proactively expanded the capital supplementary channel to promote the capital strength, reasonably controlled the growth speed of risk assets, vigorously optimized the structure of risk assets and strived to enhance the service efficiency of risk assets.

Pursuant to the Administrative Measures on Capital Adequacy Ratio of Commercial Banks [China Banking Regulatory Commission Order 2004 No. 2] and other regulatory provisions, the Company calculated the capital adequacy ratio. Core capital includes share capital, capital reserve, surplus reserve and retained profit. Supplementary capital includes general reserve, mixed capital bonds and long-term subordinated bonds.

As at the balance sheet date, the positions of capital adequacy ratio of the Company are as follows (Unit: RMB10,000):

Item	31 December 2009	31 December 2008
Net capital base	4,406,945.05	4,034,594.99
Core capital base after deductions	2,955,309.36	2,641,569.68
Supplementary capital	1,451,635.69	1,393,025.31
Risk weighted capital base after deductions	43,186,901.96	35,400,059.19
Core capital adequacy ratio	6.84%	7.46%
Capital adequacy ratio	10.20%	11.40%

X. Segment report

1. When presenting information by operating segments, operating income is divided in the basis of location of branches generating income. Segment assets and capital expenditure are divided by the location of the related assets. (Unit: RMB10,000)

2009	Northern and Northeastern China	Eastern China	Central and Southern China	Western China	Offset among divisions	Total
I. Operating income	622,590	544,007	285,720	260,646	–	1,712,963
Net interest income	568,662	500,291	265,581	246,185	–	1,580,719
Of which: net interest income among divisions	(100,259)	20,763	61,979	17,517	–	–
Net fees and commission income	39,711	35,986	15,215	11,531	–	102,443
Of which: net fees and commission income among divisions	–	–	–	–	–	–
II. Operating expenses	363,568	193,130	119,142	92,949	–	768,789
III. Operating profit/(loss)	44,479	225,843	109,147	101,657	–	481,126
IV. Total assets	50,276,935	23,477,246	16,121,853	11,339,635	(16,670,026)	84,545,643
V. Total liabilities	47,669,590	23,261,659	16,018,564	11,242,437	(16,670,026)	81,522,224
VI. Supplementary information						
1. Depreciation and amortization expenses	48,867	22,248	10,364	10,776	–	92,255
2. Capital expenditures	62,582	34,501	28,758	16,835	–	142,676
3. Non-cash expenses other than depreciation and amortization	–	–	–	–	–	–

2008	Northern and Northeastern China	Eastern China	Central and Southern China	Western China	Offset among divisions	Total
VII. Operating income	640,949	534,517	311,752	273,919	–	1,761,137
Net interest income	609,927	492,978	286,768	258,806	–	1,648,479
Of which: net interest income among divisions	(111,106)	35,405	72,646	3,055	–	–
Net fees and commission income	33,638	27,886	12,204	8,552	–	82,280
Of which: net fees and commission income among divisions	–	–	–	–	–	–
VIII. Operating expenses	354,135	167,745	116,810	90,517	–	729,207
IX. Operating profit/(loss)	19,886	202,432	80,954	100,117	–	403,389
X. Total assets	51,979,980	19,284,886	10,519,863	9,383,588	(18,004,598)	73,163,719
XI. Total liabilities	49,608,822	19,089,670	10,443,349	9,284,340	(18,004,598)	70,421,583
XII. Supplementary information						
4. Depreciation and amortization expenses	39,852	19,465	10,133	9,051	–	78,501
5. Capital expenditures	65,344	38,984	20,015	14,627	–	138,970
6. Non-cash expenses other than depreciation and amortization	–	–	–	–	–	–

2. Other segment information

The primary business of the Company is commercial loans and taking in public deposits and current personal and corporate loan funds are mainly from customers' deposits. For the trading income of operating products of the Company, please see [Notes IV. 34].

XI. Post balance sheet date events

1. Explanation on profit distribution after balance sheet date

Dividend to be distributed	648,768,681.08
Dividend announced to be issued after approval	–

2. Explanation on other post balance sheet date events

As at 24 March 2010, the Company has no other post balance sheet events that shall be disclosed.

XII. Other significant events

1. Assets and liabilities at fair value

Item	1 January 2009	Changes in fair value through profit or loss during the period	Accumulated changes in fair value through equity	Provision for impairment during the period	31 December 2009
Financial assets					
I. Financial assets at fair value through profit or loss (excluding derivative financial assets)	4,827,184,257.87	(75,478,003.13)	–	–	766,256,998.76
II. Derivative financial assets	443,130,737.17	(418,915,085.58)	–	–	24,215,651.59
III. Available-for-sale financial assets	17,946,796,549.07	–	7,516,189.99	(28,537,935.93)	11,640,738,471.95
Subtotal of financial assets	23,217,111,544.11	(494,393,088.71)	7,516,189.99	(28,537,935.93)	12,431,211,122.30
Investment property	–	–	–	–	–
Others	–	–	–	–	–
Total	23,217,111,544.11	(494,393,088.71)	7,516,189.99	(28,537,935.93)	12,431,211,122.30
Financial liabilities	458,372,890.02	450,523,695.23	–	–	8,332,803.81

2. Foreign-currency financial assets and financial liabilities

Item	1 January 2009	Changes in fair value through profit or loss during the period	Accumulated changes in fair value through equity	Provision for impairment during the period	31 December 2009
Financial assets					
I. Financial assets at fair value through profit or loss (excluding derivative financial assets)	464,514,277.93	57,539,221.93	–	–	488,487,044.14
II. Derivative financial assets	12,010,450.17	5,977,957.42	–	–	17,988,407.59
III. Loans and receivables	3,840,822,915.31	–	–	31,905,263.92	4,547,444,529.49

Item	1 January 2009	Changes in fair value through profit or loss during the period	Accumulated changes in fair value through equity	Provision for impairment during the period	31 December 2009
IV. Available-for-sale financial assets	161,101,529.02	–	39,628.37	(28,537,935.93)	219,510,164.35
V. Held-to-maturity investments	1,155,447,565.99	–	–	(51,282,202.05)	1,179,903,384.54
VI. Other financial assets	5,931,849,945.23	–	–	(10,964,554.92)	5,539,107,727.94
Subtotal of financial assets	11,565,746,683.65	63,517,179.35	39,628.37	(58,879,428.98)	11,992,441,258.05
Financial liabilities					
I. Financial liabilities at fair value through profit or loss (excluding derivative financial liabilities)	–	–	–	–	–
II. Derivative financial liabilities	27,252,603.02	25,643,043.21	–	–	1,609,559.81
III. Other financial liabilities	15,468,908,367.07	–	–	–	10,758,592,230.67
Subtotal of financial liabilities	15,496,160,970.09	25,643,043.21	–	–	10,760,201,790.48

3. On 11 May 2009, after the review and approval by the 2008 General Meeting of Shareholders of the Company, the Company could issue subordinated bonds not exceeding RMB10 billion during 2009-2010 with issuing interest rate determined by the market. The General Meeting of Shareholders authorized the Board of Directors to handle the matters relating to the subordinated bonds issuance and the authorization period shall be effective for one year from the date in which the subordinated bonds issuance was approved by PBOC.

XIII. Supplementary information

1. Detailed list of current extraordinary profit and loss

Item	Amounts incurred in the period	Remarks
(Profit)/loss on disposal of non-current assets	(3,697,851.41)	
(Profit)/loss from contingencies irrelevant to the normal operation of the Company	(1,377,064.66)	
(Profit)/loss on changes in fair value of held-for-trading financial assets and held-for-trading financial liabilities excluding effective hedging transaction related to the Company's normal operation	(43,869,393.48)	
Investment gains from the disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets	111,377,118.95	
Reverse of allowance for impairment losses on receivables undergoing impairment test independently	–	
Other operating income and expenses except the above items	21,396,186.86	
Total extraordinary profit and loss	83,828,996.26	
Less: Income tax influence of extraordinary profit and loss	21,689,371.90	
Extraordinary profit and loss, net	62,139,624.36	

2. Return on net assets and earnings per share

Profit of the reporting period	Return on weighted average net assets %	Earnings per share Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	13.04%	0.7535	0.7535
Net profit attributable to ordinary shareholders of the Company after deduction of extraordinary profit/loss	12.83%	0.7410	0.7410

Calculation process of return on weighted average net assets is as follows:

Item	Code	Reporting period
Net profit attributable to ordinary shareholders of the Company during the reporting period	P1	3,760,226,845.68
Extraordinary profit and loss attributable to ordinary shareholders of the Company during the reporting period	F	62,139,624.36
Net profit attributable to ordinary shareholders of the Company after deduction of extraordinary profit and loss during the reporting period	P2=P1-F	3,698,087,221.32
Net assets at the beginning of the period attributable to ordinary shareholders of the Company	E0	27,421,356,889.70
Increased net assets including new shares issued or debt-to-equity swap, etc. attributable to ordinary shareholders of the Company during the reporting period	Ei	–
Number of months for increased net assets from next month until the end of the reporting period	Mi	–
Decreased net assets including repurchase or cash dividend, etc. attributable to ordinary shareholders of the Company during the reporting period	Ej	648,768,681.08
Number of months for decreased net assets from next moth until the end of the reporting period	Mj	6
(Increase)/decrease in net assets caused by other matters	Ek	(298,629,839.68)
Number of months for changes in other net assets from next moth until the end of the reporting period	Mk	6
Number of months of reporting period	M0	12
Net assets at the end of the period attributable to ordinary shareholders of the Company	E1	30,234,185,214.62
Weighted average net assets attributable to ordinary shareholders of the Company	E2=E0+P1/2+Ei*Mi/M0-Ej*Mj/M0+Ek*Mk/M0	28,827,771,052.16
Return on weighted average net assets attributable to ordinary shareholders of the Company	Y1=P1/E2	13.04%
Return on weighted average net assets attributable to ordinary shareholders of the Company after deduction of extraordinary profit and loss	Y2=P2/E2	12.83%

3. Accounting data differences under PRC GAAP and IFRS

(1) Differences of net profit and net assets in the financial reports disclosed under IFRS and PRC GAAP

	Net Profit		Net assets	
	2009	**2008**	**31 December 2009**	**31 December 2008**
PRC GAAP	3,760,226,845.68	3,070,838,346.40	30,234,185,214.62	27,421,356,889.70
Item and amount adjusted under IFRS:	–	–	–	–
Unrealized profit/(loss) in available-for-sale investments (Note)	–	–	146,838,761.28	184,004,487.95
IFRS	3,760,226,845.68	3,070,838,346.40	30,381,023,975.90	27,605,361,377.65

Note: Unrealized profit/(loss) in available-for-sale investments is unamortized balance of unrealized profit/loss in available-for-sale investments under IFRS.

(2) The financial report under IFRS has been audited by overseas audit institution: Ernst & Young.

XIV. Approval of financial statements

The financial statements and the notes to financial statements have been approved by the 18th meeting of the fifth Board of Directors of the Company on 24 March 2010.

Hua Xia Bank Co., Limited
24 March 2010

INDEPENDENT AUDITORS' REPORT

To the Management of Hua Xia Bank Co., Limited

We have audited the accompanying financial statements of Hua Xia Bank Co., Limited (the "Company"), which comprise the statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to the Management of the Company, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, 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 financial statements give a true and fair view, in all material respects, of the Company's financial position as at 31 December 2009, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernest & Young
Practising Certified Public Accountants

Hong Kong, 24 March 2010

Hua Xia Bank Co., Limited

Income Statement

Year ended 31 December 2009

(In RMB1,000, unless otherwise stated)

	Note	2009	2008
Interest income	4	32,487,667	37,370,153
Interest expense	4	(16,699,280)	(20,909,929)
Net interest income	4	15,788,387	16,460,224
Net fee and commission income	5	1,024,435	822,800
Net gain/(loss) on trading financial assets and liabilities	6	46,789	45,965
Other operating income, net	7	280,255	246,291
Operating income		17,139,866	17,575,280
Staff cost	8	(3,377,818)	(3,380,045)
General and administrative expenses	9	(3,749,134)	(3,426,928)
Depreciation and amortization		(560,941)	(485,096)
Business tax and surcharges		(1,247,371)	(1,382,359)
Impairment losses on loans and advances to customers	16b	(3,329,899)	(4,507,401)
Impairment losses on other assets	10	(47,117)	(386,908)
Profit before tax		4,827,586	4,006,543
Income tax expense	11	(1,067,359)	(935,705)
Profit for the year		3,760,227	3,070,838
Earnings per share			
Basic and diluted earnings per share (RMB yuan)	12	0.75	0.70

The accompanying notes to financial statements form an integral part of the accounts.

Hua Xia Bank Co., Limited

Statement of Comprehensive Income

Year ended 31 December 2009

(In RMB1,000, unless otherwise stated)

	Note	2009	2008
Profit for the year		3,760,227	3,070,838
Other comprehensive income/(loss) (after-tax, net):	27		
Net loss on available-for-sale financial assets		(335,796)	339,378
Subtotal of other comprehensive income/(loss)		(335,796)	339,378
Total comprehensive income for the year		3,424,431	3,410,216

The accompanying notes to financial statements form an integral part of the accounts.

Hua Xia Bank Co., Limited

Statement of Financial Position

31 December 2009

(In RMB1,000, unless otherwise stated)

	Note	31 December 2009	31 December 2009
Assets			
Cash and balances with central banks	13	91,071,728	126,433,353
Due from banks and other financial institutions	14	32,363,377	22,904,270
Reverse repurchase agreements	15	209,952,004	135,341,884
Loans and advances to customers	16	419,452,247	345,667,974
Trading financial assets	17	765,724	4,817,684
Investments	18	82,426,958	87,371,302
Derivative financial assets	19	24,216	443,131
Property and equipment	20	4,964,873	4,544,980
Deferred income tax assets	11	1,286,005	759,577
Other assets	21	3,287,577	3,315,297
Total assets		845,594,709	731,599,452
Liabilities			
Due to banks and other financial institutions		88,377,262	94,702,321
Repurchase agreements	22	107,758,509	85,987,087
Due to customers	23	581,678,388	485,349,577
Derivative financial liabilities	19	7,837	458,373
Bonds payable	24	23,870,000	23,870,000
Income tax payable		1,489,034	913,538
Other liabilities	25	12,032,656	12,713,196
Total liabilities		815,213,686	703,994,092
Shareholders' equity			
Share capital	26a	4,990,528	4,990,528
Capital reserve	26b	14,349,123	14,349,123
Statutory surplus reserve	26c	1,672,378	1,296,355
Discretionary surplus reserve	26c	110,971	110,971
General reserve	26e	6,988,533	5,406,956
Retained profit	26e	2,115,135	961,276
Changes in fair value of investments, after-tax		154,355	490,151
Total shareholders' equity		30,381,023	27,605,360
Total liabilities and shareholders' equity		845,594,709	731,599,452

Chairman President Chief Financial Officer Seal of Hua Xia Bank

The accompanying notes to financial statements form an integral part of the accounts.

Hua Xia Bank Co., Limited

Statement of Changes in Equity

Year ended 31 December 2009

(In RMB1,000, unless otherwise stated)

	Share capital	Capital reserve	Statutory surplus reserve	Discretionary surplus reserve	General reserve	Retained profit	Changes in fair value of investments, after-tax	Total
Balance as at 1 January 2009	4,200,000	3,759,620	989,271	110,971	3,326,000	740,478	150,773	13,277,113
Profit for the year	–	–	–	–	–	3,070,838	–	3,070,838
Other comprehensive income (Note 27)	–	–	–	–	–	–	339,378	339,378
Total comprehensive income	–	–	–	–	–	3,070,838	339,378	3,410,216
Capital injection by shareholders	790,528	10,589,503	–	–	–	–	–	11,380,031
Appropriation to surplus reserve	–	–	307,084	–	–	(307,084)	–	–
Appropriation to general reserve	–	–	–	–	2,080,956	(2,080,956)	–	–
Dividend	–	–	–	–	–	(462,000)	–	(462,000)
Balance as at 31 December 2008 and 1 January 2009	4,990,528	14,349,123	1,296,355	110,971	5,406,956	961,276	490,151	27,605,360
Profit for the year	–	3,760,227	3,760,227					
Other comprehensive loss (Note 27)	–	–	–	–	–	–	(335,796)	(335,796)
Total comprehensive income	–	–	–	–	–	3,760,227	(335,796)	3,424,431
Appropriation to surplus reserve	–	–	376,023	–	–	(376,023)	–	–
Appropriation to general reserve (Note 26e)	–	–	–	–	1,581,577	(1,581,577)	–	–
Dividend (Note 26d)	–	–	–	–	–	(648,768)	–	(648,768)
Balance as at 31 December 2009	4,990,528	14,349,123	1,672,378	110,971	6,988,533	2,115,135	154,355	30,381,023

The accompanying notes to financial statements form an integral part of the accounts.

Hua Xia Bank Co., Limited

Statement of Cash Flows

Year ended 31 December 2009

(In RMB1,000, unless otherwise stated)

	2009	2008
Cash flows from operating activities		
Profit before tax	4,827,586	4,006,543
Adjustments for:		
Depreciation and amortization	560,941	485,096
Impairment losses on assets	3,377,016	4,894,309
Net loss on disposal of property and equipment	3,698	3,639
Net gain or loss on sale of bonds investment	(29,439)	(2,980)
Interest expense on bonds issued	1,039,584	1,227,316
	4,951,800	6,607,380
Net increase/(decrease) in operating assets:		
Restricted balances with central banks	(12,328,474)	(7,071,362)
Due from banks and other financial institutions	4,950,965	(4,517,576)
Reverse repurchase agreements	(74,610,120)	(17,788,444)
Loans and advances to customers	(77,129,302)	(51,935,190)
Other assets	(595,173))	(763,632)
	(159,712,104)	(82,076,204)
Net increase/(decrease) in operating liabilities:		
Due to banks and other financial institutions	(6,325,059)	35,322,513
Repurchase agreements	21,771,422	37,387,551
Due to customers	96,328,811	46,567,318
Other liabilities	(1,040,928)	5,399,424
	110,734,246	124,676,806
Net cash inflow/(outflow) from operating activities before income tax	(39,198,472)	53,214,525
Income tax paid	(491,863)	(1,044,590)
Net cash inflow/(outflow) from operating activities	(39,690,335)	52,169,935

The accompanying notes to financial statements form an integral part of the accounts.

Hua Xia Bank Co., Limited

Statement of Cash Flows

Year ended 31 December 2009

(In RMB1,000, unless otherwise stated)

	2009	2008
Cash flows from investing activities		
Proceeds from disposal of investments	610,182,044	896,573,384
Proceeds from disposal of property and equipment	8,609	118,683
Acquisition of property and equipment	(872,257)	(943,264)
Acquisition of investments	(601,140,734)	(918,461,217)
Net cash inflow/(outflow) from investing activities	8,177,662	(22,712,414)
Cash flows from financing activities		
Capital injection by shareholders	–	11,380,031
Dividends paid	(664,938)	(453,560)
Interest paid on bonds issued	(1,113,562)	(1,166,061)
Net cash inflow/(outflow) from financing activities	(1,778,500)	9,760,410
Effect of exchange rate changes on cash and cash equivalents	181	(7,283)
Net increase/(decrease) in cash and cash equivalents	(33,290,992)	39,210,648
Cash and cash equivalents at beginning of the year	92,280,279	53,069,631
Cash and cash equivalents at end of the year	58,989,287	92,280,279
Net cash inflow/(outflow) from operating activities includes:		
Interest received	32,746,824	37,220,460
Interest paid	(17,865,440)	(19,287,900)
Cash and cash equivalents at end of the year:		
Cash	1,823,538	1,589,096
Cash equivalent:		
Due within three months		
– Balances with central banks	24,802,372	72,726,913
– Due to banks and other financial institutions	32,363,377	17,964,270
	58,989,287	92,280,279

The accompanying notes to financial statements form an integral part of the accounts.

Hua Xia Bank Co., Limited

Notes to Financial Statements

31 December 2009

(In RMB1,000, unless otherwise stated)

1. CORPORATE INFORMATION

Hua Xia Bank Co., Limited (the "Company") was established as a nationwide commercial bank on 14 October 1992 with the approval of the People's Bank of China ("PBOC"). On 10 April 2003, Hua Xia Bank was approved to be restructured as a joint-stock limited company by promoter incorporation according to the PBOC document (Y.F. [1996] No. 109), and then renamed as Hua Xia Bank Co., Limited. On 21 July 2003, the Company obtained approval from China Securities Regulatory Commission ("CSRC") for offering of A shares. On 12 September 2003, the Company was listed.

On 21 May 2004, the Company converted the capital surplus of RMB700,000,000 into share capital at a ratio of 2 for 10 shares on the basis of 3.5 billion of shares as at 31 December 2003. After the conversion, the registered capital reached RMB4,200,000,000, which has been verified by Beijing Jingdu Certified Public Accountants, with the capital verification report (B.J.J.D.Y.Z. (2004) No. 0017) being issued on 26 May 2004.

On 15 October 2008, with approval of CSRC, the Company issued 790,528,316 RMB-denominated common shares (A shares) in a non-public way to three designated investors, namely Shougang Corporation, State Grid Corporation of China and DEUTSCHE BANK AKTIENGESELLSCHAFT. After the additional offering, the registered capital of the Company amounted to RMB4,990,528,316, which has been verified by Beijing Jingdu Certified Public Accountants, with the capital verification report (B.J.J.D.Y.Z. (2005) No. 085) being issued on 16 October 2008.

The Company provides commercial banking services. As set out in the corporate business license, the Company engages in the following businesses: deposits-taking, granting of loans on a short, medium and long-term basis, domestic and international settlement, bill acceptance and discounting, issuance of financial bonds, commissioned issuance, encashment and underwriting of government bonds, trading of government bonds and financial bonds, inter-bank lending and borrowing, trading of foreign exchange on its own behalf and as an agent, bank card service, provision of letter of credit and letter of guarantee, paying and receiving activities, provision of safety box service, settlement and sale of foreign exchange, commissioned provision of insurance, as well as other services approved by China Banking Regulatory Commission ("CBRC").

The registered office address of the Company is 22 Jianguomen Inner Street, Dongcheng District, Beijing, the People's Republic of China (the "PRC"). The Company operates within the territory of the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations promulgated by the International Accounting Standards Board ("IASB").

They have been prepared under the historical cost convention, except for derivative financial instruments, financial assets and liabilities designated at fair value through profit or loss and available-for-sale financial assets that have been measured at fair value. These financial statements are presented in RMB. All values are rounded to the nearest thousand except when otherwise indicated.

The Company enters records and prepares statutory financial statements in accordance with relevant financial regulations and accounting principles formulated by the Ministry of Finance of the PRC (the "MOF") ("PRC GAAP"). As the accounting policies and basis for the preparation of statutory financial statements are different from the IFRS with regard to several items, these financial statements differ from the statutory financial statements. Significant differences in operating results and financial position under IFRS have been reconciled in the preparation of these financial statements, which are not presented in accounts of the Company.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

(a) Accounting Judgments

In the process of applying the Company's accounting policies, management has used its judgments and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgments and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below.

Classification of investments

Significant management judgment is required to classify investments into the following four categories: financial assets measured at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. The classification affects accounting approaches to be adopted and financial position of the Company. If the Company fails to make a correct judgment, a reclassification of the overall investments may be needed.

(b) Uncertain Estimates

The most significant use of judgments and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below.

Impairment losses on loans and advances

The Company determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances. If any such evidence exists, the Company assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgment on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

Impairment losses on available-for-sale and held-to-maturity investments

In determining whether there is any objective evidence that impairment losses have occurred on available-for-sale and held-to-maturity investments, the Company assesses periodically whether there has been a significant or prolonged decline in the fair value below its cost or carrying amount, or whether other objective evidence of impairment exists based on the invitee's financial conditions and business prospects, including industry environment, change of technology as well as operating and financing cash flows. This requires a significant level of judgment of the management, which would affect the amount of impairment losses.

Income tax

Determining income tax provisions requires the Company to estimate the future tax treatment of certain transactions. The Company carefully evaluates tax implications of transactions in accordance with prevailing tax regulations of the PRC and makes tax provisions accordingly.

In addition, deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

Fair value of financial instruments

If the market for a financial instrument is not active, the Company establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

2.3 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS THAT ARE EFFECTIVE OR EARLY ADOPTED IN 2009 AND RELEVANT TO THE COMPANY

The IASB has issued the following new and revised International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations that are effective or early adopted in 2009 and relevant to the Company's operation.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 First-time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Revised)	Share-based payment – Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combinations
IFRS 7 Amendments	Amendments to IFRS 7 Financial Instruments: Disclosures –- Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers

The principal effects of adopting these new and revised IFRS and IFRIC interpretations are as follows:

The Company has early adopted IFRS 3 Business Combination (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) as at 1 January 2009. IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that impacts the amount of goodwill recognized, the reported result in the period that an acquisition occurs and future reported results. IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. The Company has no subsidiary, therefore, the adoption of IAS 27 (Amended) did not result in any effect on the financial position and operating results of the Company.

The amendments to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 35. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 34(b).

IFRS 8 Operating Segments requires disclosure of information about operating segments and replaces the requirement to determine primary and secondary reporting segments. The Company determined the operating segments according to the organizational framework, management requirement and internal reporting regulations, and on this basis, determined the reporting segments. Additional disclosures about each of these segments are shown in Note 33, including revised comparative information.

IAS 1 Presentation of Financial Statements (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, it introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement or in two linked statements. The Company has elected to present two statements.

IAS 23 – Borrowing Costs (Revised 2007) replaces IAS 23 – Borrowing Costs (1993). The revised IAS 23 requires borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalized, instead of being immediately recognized as an expense. The adoption of this standard did not have any effect on the financial position and operating results of the Company.

The amendments to IAS 32 Financial Instruments: Presentation provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfill a number of specified features. Amendments to IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Company currently has no such financial instruments or obligations during the reporting period, the amendments have had no impact on the financial position or results of operations of the Company.

The amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of this standard did not have any effect on the financial position and operating results of the Company.

IFRIC 13 Customer Loyalty Programmes requires the entity that grants the award credits to account for the sales transaction that gives rise to the award credits as a 'multiple element revenue transaction'. The consideration received in respect of the initial sale should be allocated to the award credits and recognized as deferred revenue until the entity fulfils its obligations to deliver awards to customers. The adoption of this interpretation had no significant impact on the financial statements of the Company.

Apart from the above, in May 2008 the IASB has issued Improvements to IFRS* which set out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendments to IFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Company.

* Improvements to IFRSs contain amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

2.4 SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transaction

RMB is the functional and presentation currency of the Company.

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable exchange rates prevailing at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognized in the income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates ruling at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined, of which translation differences of equity investments at fair value through profit or loss are recognized in the income statement as a part of fair value gain or loss, while translation of available-for-sale equity investments are recorded in changes in fair value of investments under equity.

(b) Classification and Measurement of Financial Assets

The financial assets held by the Company are classified into four categories: financial assets measured at fair value through profit or loss; held-to-maturity financial assets; loans and receivables; and available-for-sale financial assets. A financial asset is measured initially at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

1) Financial assets or financial liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets initially designated at fair value through profit or loss. The financial assets acquired principally for the purpose of selling them in the near term and derivative financial instruments not designated as effective hedge instrument are classified as held-for-trading financial assets.

Financial assets or financial liabilities held for trading are measured at fair value in the statement of financial position, and changes in fair value are recognized as net gain or loss of trading.

A financial asset not held for trading may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below, and is so designated by management.

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognising the gains and losses on them on different bases;
- It applies to a group of financial assets, financial liabilities or both which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

These assets and liabilities are measured at fair value after initial recognition. Realised or unrealised incomes or expenses are recognized in the income statement.

2) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity and which the Company has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any allowance for impairment. Gains and losses are recognized in the income statement when these financial assets are derecognised or impaired, as well as through the amortisation process. The Company shall reclassify any remaining held-to-maturity investments as available for sale and shall not classify any financial assets as held-to-maturity during the current financial year or during the two preceding financial years, if the Company has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) except for sale or reclassification that:

(i) is so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) occurs after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(iii) is attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

If fair value could not be measured reliably due to changes in intention or ability or in quite few circumstances, or as "two preceding financial years" pass, measurement by cost or amortized cost rather than fair value is much more proper, the carrying value of the financial instrument measured at fair value should be taken as new cost or new amortized cost. Gains and losses previously recognized in equity should be accounted for as follows:

- Gains and losses of financial assets with fixed maturity dates should be amortised over the remaining period of the asset using effective interest rate method and recognized in equity. The difference between new amortised cost and amount at maturity should be amortised over the remaining period. If financial assets are impaired, gains and losses directly recognized in equity should be recognised in income statement.
- Gains and losses of financial assets without fixed maturity date should be recorded in equity until the assets are sold or disposed. If financial assets are impaired, gains and losses directly recognized in equity should be recognized in income statement.

3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the management has no intention of trading the assets immediately or in the near term. Such assets are measured at amortised cost using the effective interest method, less any allowance for impairment. Gains and losses are recognized in the income statement when such assets are derecognised or impaired, as well as through the amortisation process.

Discounted bills are granted by the Company to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognized using the effective interest method.

4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are designated as such or are not classified in any of the three categories including loans and receivables, held-to-maturity financial assets and financial assets measured at fair value through profit or loss. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest method and are taken as interest income.

Unrealized income brought by changes in fair value of available-for-sale financial assets is separately presented in other comprehensive income before the financial assets are derecognized or impaired. Such changes in fair value recognized in other comprehensive income should be transferred to income statement when the financial assets are derecognized or impaired.

Available-for-sale financial assets are presented by their cost minus allowance for impairment losses when their fair value could not be reliably measured in circumstances where (a) proper estimates of fair value have a large range of change, or (b) probability of estimates in the range could not be properly measured and could not be used as an estimate of fair value.

The Company assesses whether the holding of available-for-sale financial assets and the intention of selling such assets in short time is proper. As the market is not active or the intention of management has material changes, such financial assets may be reclassified in few circumstances. When the conditions of loans and receivables are satisfied and the Company has the ability and intention to hold the financial assets till the foreseeable future or their maturity, such assets are permitted to be reclassified as loans and receivables. Only when the Company has the ability and clear intention to hold the assets to maturity, such assets can be reclassified into held-to-maturity investments.

Where available-for-sale financial assets are reclassified to other financial assets, gains and losses of previously years recognized in other comprehensive income should be amortised over the remaining period of there assets using effective interest rate method and recognized in income statement. The difference between amortised cost and amount at maturity date should also be amortised over the remaining period and recognized in income statement. Where such assets are impaired subsequently, gains and losses directly recognized in equity should be transferred out of equity.

5) Determination of fair value

The fair value of a financial instrument traded in active markets is based on its quoted market price. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include making reference to the prices from recent arm's length market transactions between knowledgeable and willing parties, if available, current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

(c) Impairment of financial assets

An assessment on carrying amount of financial assets is made at the end of each reporting period. Impairment is recognized if there is objective evidence of impairment of financial assets, i.e., one or more events that occur after the initial recognition of those assets and have an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, they would probably enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

1) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognized in the income statement.

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

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed and adjusted regularly by the Company.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recorded in the income statement. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

When an item of loans and receivables is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

2) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on the unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows. Impairment losses on these assets are not reversed.

3) Available-for-sale financial assets

The Company reviews available-for-sale financial assets at the end of each quarter to determine whether there is any objective evidence for impairment loss on any investment or investment portfolio. If there is objective evidence that the asset is impaired, 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 the income statement, is removed from equity and recognised in the income statement.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised as other comprehensive income.

In the case of debt instruments classified as available-for-sale, if, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impaired loss is reversed through the income statement.

4) Renegotiated loans

Where possible, the Company seeks to restructure loans, which may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(d) Financial liabilities

Financial liabilities held by the Company are classified in to financial liabilities measured at fair value through profit or loss and other financial liabilities.

1) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are classified as financial liabilities held for trading and financial liabilities measured at fair value through profit or loss designated by management at initial recognition based on conditions set out in Note 2.4(b)1).

2) Other financial liabilities

Except for financial liabilities held for trading and financial liabilities measured at fair value through profit or loss, deposits, bonds issued and other financial liabilities are measured at amortised cost using the effective interest method.

(e) Recognition of financial instruments

A financial asset or financial liability is recognized when the Company becomes a party of the financial instrument contract.

(f) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the assets have expired; or
- The Company has transferred its rights to receive cash flows from the assets; or has retained its rights to receive cash flows from the assets but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Company has transferred substantially all the risks and rewards of ownership of the financial asset; or the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

(g) Derivative financial instrument

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 fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. If there is an acitive market is available, fair value is determined according to market quotation, including recent arm's length market transactions; otherwise, proper valuation techniques such as discounted cash flow analysis and option pricing models are adopted.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

(h) Offsetting

Financial assets and liabilities are offset if the Company has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis

(i) Repurchase and reverse repurchase transactions

Assets sold under agreements to repurchase at a specified future date ("repos") are recognized on the statement of financial position. The corresponding cash received, including accrued interest, is recognized on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest method.

Conversely, assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognized on the statement of financial position. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest method.

(j) Property and equipment

Property and equipment is stated at cost or determined value. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. The expenditure which could create an increase in future economic benefits is capitalized in the carrying amount of the asset. Property and equipment is reviewed item by item at the end of reporting period, and the difference between the recoverable amount and carrying value is recognized as allowance for impairment losses on property and equipment in the income statement.

Depreciation of property and equipment is calculated on the straight-line basis according to the cost, estimated residual value (5% of cost) and estimated useful life. The estimated useful life and the annual depreciation rate of each item of property, plant and equipment are as follows:

	Estimated useful life	Annual depreciation rate
Properties and buildings	5-40 years	2.38%-19%
Improvements of property and equipment	5-10 years	9.5%-19%
Office equipment and computers	5-12 years	7.92%-19%
Motor vehicles	5-10 years	9.5%-19%

Investment property is property held to earn rentals or for capital appreciation or both, including land use right under a lease, land use right held and to be transferred after appreciation, and buildings under a lease.

An investment property shall be measured initially at its cost. Any subsequent expenditures related to the investment property is recognized as cost of investment property when and only when the future economic benefits associated with the investment property will probably flow to the entity and the cost of the investment property can be measured reliably; otherwise the expenditure is recognized in the income statement.

After initial measurement, investment property is measured using cost model with reference to the estimated residual value, depreciation rate and depreciation method of property and buildings, that is, a residual rate of 5% and useful life of 35 years on a straight-line basis.

Construction in progress comprises the direct costs of construction during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, on a regular basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

(k) Repossessed assets

Collateral assets or other effective assets for loans and advances are repossessed by the Company when the borrowers are unable to honour their repayments, and would be realised in settlement of the related outstanding debts.

Repossessed assets are initially recognised at the carrying amount of the related loan principal and interest receivable, net of allowance for impairment losses. The Company's repossessed assets are reviewed at the end of each reporting period by management. If their carrying value exceeds the recoverable amount, the assets are written down. Any impairment loss, being the difference between the estimated net recoverable amount and the carrying value, is charged to the income statement.

(l) Impairment of non-financial assets other than deferred tax assets

The Company assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the income statement

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement, unless the asset is presented at its reassessed value, in which case, the reversal is recognized as reassessment appreciation. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash, unrestricted balances with central banks with original maturity of less than three months, amounts due from banks and other financial institutions with original maturity of less than three months and short-term investments which are short term highly liquid, readily convertible into known amounts of cash and subject to an insignificant risk of changes in value and become due within three months from the date of purchase.

(n) Operating leases

Leases where substantially all the rewards and risks of the assets remain with the lessor are accounted for as operating leases. Rental payments applicable to operating leases are charged to the income statement on the straight-line basis over the lease terms.

(o) Related parties

A party is considered to be related to the Company if:

(i) The party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Company; (b) has an interest in the Company that gives it significant influence over the Company; or (c) has joint control over the Company;

(ii) The party is an associate of the Company;

(iii) The party is a joint venture in which the Company is a venturer;

(iv) The party is a member of the key management personnel of the Company or its parent company;

(v) The party is a close member of the family of any individual referred to in (i) or (iv);

(vi) The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) The party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

(p) Recognition of income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

1) For all financial instruments measured at amortised cost and interest-generating financial instruments classified as available-for-sale financial assets, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future net cash inflow through the expected life of the financial instrument. Once a financial asset or a group of similar financial assets has been impaired, interest income is recognised using the original interest rate and carrying value after impairment.
2) Rentals of investment property is recognised on an accrual basis.
3) Fee and commission income is recognised when relevant service is provided and the amount to be received can be properly estimated.
4) Dividend income is recognised when the Company's right to receive payment has been established.
5) Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held for trading. This includes gains and losses from changes in fair value relating to the ineffective portion of the hedging arrangements, and gains and losses realised in buying and selling.

(q) Income tax

Income tax comprises current and deferred tax. Income taxes are recognised in the income statement as income tax income or expense, expect for those associated with transactions or events directly recognised in equity.

Current tax

Current income tax refers to income tax payable for the current period calculated based on taxable income for the period, which is the adjusted accounting profit before tax according to tax laws. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. The unrecognised deferred income assets are reassessed at the end of each reporting period. When it is virtually probable that sufficient taxable income will be available, the previously unrecognised income tax assets will be recognised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(r) Employee retirement benefits

In accordance with the relevant laws and regulations of the PRC, the Company is required to provide employees with retirement benefits. The Company is responsible for contributing to the government agencies the statutory defined contribution plans using applicable rates stipulated in relevant regulations. Such contributions are recognized in the income statement as incurred. The Company is responsible for contributing a certain percentage of the employees' salaries to a defined contribution plan under management of the government. Such contributions are recognized in the income statement as incurred.

In addition, the Company also establishes enterprise annuity plans managed by insurance companies. According to these plans, the Company contributes a certain amount on a regular basis. The contribution is charged to the income statement when it incurs. The Company pays a fixed contribution into the annuity plan and has no obligation to pay further contributions if the annuity plan does not hold sufficient assets to pay all employees benefits.

(s) Fiduciary activities

Where the Company acts in a fiduciary capacity such as appointed, custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

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

Entrusted wealth management services refer to such activities that the Company entrusts third parties to invest by and manage funds from customers of the Company and pays investment income to the customers according to agreed terms and conditions and actual return. The Company does not guarantee the payment of principal and return at maturity.

(t) Financial guarantee contracts

The Company issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation.

The Company initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognized ratably over the period of the contract as fee and commission income. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

(u) Provisions

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

If time value of money has significant effects, provisions are estimated using pre-tax discounting of future cash flows. Such discounting rate reflects unique risk assessment of liabilities. As time passes, carrying value increases and the increase is recognized as interest expense. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expenses relating to any provision is presented in the income statement net of any reimbursement.

(v) Contingent liabilities

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 Company. 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 cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements.

When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has not applied the following new and revised IFRS and IFRIC interpretations that have been issued but are not yet effective, in these financial statements.

IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards [1]
IFRS 1 Amendments	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters [2]
IFRS 1 Amendments	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures [4]
IFRS 2 Amendments	Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions [2]
IFRS 5 Amendments	Non-current Assets Held for Sale and Discontinued Operations [1]
IFRS 9	Financial Instruments [6]
IAS 24 (Revised)	Related Party Disclosures [5]
IAS 32 Amendment	Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues [3]
IAS 39 Amendment	Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items [1]
IFRIC 14 Amendments	Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement [5]
IFRIC 17	Distributions of Non-cash Assets to Owners [1]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments [4]

Apart from the above, in April 2009 the IASB has issued Improvements to IFRSs which set out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009. The amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009.

[2] Effective for annual periods beginning on or after 1 January 2010.

[3] Effective for annual periods beginning on or after 1 February 2010.

[4] Effective for annual periods beginning on or after 1 July 2010.

[5] Effective for annual periods beginning on or after 1 January 2011.

[6] Effective for annual periods beginning on or after 1 January 2013.

The Company is in the process of making an assessment of the impact of these new and revised IFRS and interpretations upon initial application. Further information about those changes that are expected to significantly affect the Company is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Company expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

4. NET INTEREST INCOME

	2009	2008
Interest income on:		
Corporate loans	18,558,440	20,189,098
Personal loans	2,002,951	2,652,487
Discounted bills and reverse repurchase agreements	7,831,663	9,910,470
Bonds issued	2,702,955	2,968,467
Balances with central banks	1,099,705	1,284,973
Due from banks and other financial institutions	291,953	364,658
	32,487,667	37,370,153
Interest expense on:		
Demand deposits	(1,229,970)	(1,525,919)
Time deposits	(7,050,947)	(9,231,227)
Due to banks and other financial institutions and repurchase agreements	(7,378,758)	(8,925,398)
Bonds payable and others	(1,039,605)	(1,227,385)
	(16,699,280)	(20,909,929)
Net interest income	15,788,387	16,460,224

The above interest income includes RMB214,614,000 (2008: RMB227,950,000) (Note 16b) interest income on impaired loans and RMB6,217,000 (2008: RMB3,195,000) interest income on impaired bonds.

5. NET FEE AND COMMISSION INCOME

	2009	2008
Financial advisory fee income	237,678	207,688
Acceptance fee	165,019	138,372
Bank card business fee income	186,865	128,538
Letter of credit fee income	91,771	113,721
Financing notes underwriting fee income	85,837	54,512
Fiduciary business fee income	35,582	30,627
Fund distribution fee income	33,742	64,411
Government bonds underwriting fee income	27,949	19,575
Others	439,459	306,052
Fee and commission income	1,303,902	1,063,496
Fee and commission expense	(279,467)	(240,696)
Net Fee and commission income	1,024,435	822,800

6. NET GAIN/LOSS ON TRADING FINANCIAL ASSETS AND LIABILITIES

	2009	2008
Financial assets	30,598	69,887
Financial liabilities	16,191	(23,922)
Total	46,789	45,965

The above amounts represent gains and losses arising from the buying and selling, interest income and expense on and changes in the fair value of financial assets and liabilities.

7. OTHER OPERATING INCOME/(EXPENSE), NET

	2009	2008
Net gain on foreign exchange	127,318	135,930
Net loss on disposal of property and equipment	(3,698)	(3,639)
Net gain/loss on bonds investment	29,439	2,980
Others	127,196	111,020
Total	280,255	246,291

8. STAFF COST

	2009	2008
Salaries, bonuses and allowances	2,329,981	2,589,509
Staff benefits	983,647	742,803
Enterprise annuity plan (Note)	64,190	47,733
Total	3,377,818	3,380,045

Note: The Company contributes to the enterprise annuity plan by a certain percentage as prescribed in the Financial Enterprise Finance Rules – Guidance for Implementation formulated by the MOF, and entrusts qualified agencies to manage annuity fund pursuant to relevant regulations of the Ministry of Human Resources and Social Security.

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
Business trip expenses	972,682	816,655
Printing and stationery expenses	832,741	762,331
Rent expenses	546,806	470,646
Publicity expenses	514,560	474,088
Utility expenses	216,402	190,482
Regulatory fees	91,844	86,865
Taxes	67,700	68,585
Building expenditures	64,025	61,330
Banknotes transportation expenses	41,459	35,163
Maintenance expenses	34,298	33,884
Others	366,617	426,899
Total	3,749,134	3,426,928

10. IMPAIRMENT LOSSES ON OTHER ASSETS

	2009	2008
Charge/(reversal) of impairment losses on:		
Due from and placements with banks and other financial institutions (note 14)	(10,965)	(7,083)
Repossessed assets	56,780	62,944
Investments in bonds (Notes 18a and 18b)	(79,820)	246,706
Other assets	81,122	84,341
Total	47,117	386,908

11. INCOME TAX

Income tax is calculated at the statutory rate of 25% (2008: 25%) of taxable income in accordance with relevant income tax law of Mainland China.

Income tax includes:

	2009	2008
Current income tax expense	1,752,332	1,716,039
Adjustment in respect of current income tax of prior years	(270,477)	(495,685)
Deferred income tax expense	(414,496)	(284,649)
Total	1,067,359	935,705

Current deferred income tax recognized in equity

	2009	2008
Changes in fair value of investments	(111,932)	113,127

A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate of 25% (2008: 25%) to income tax expense at the Company's effective income tax rate is as follows:

	2009	2008
Profit before tax	4,827,586	4,006,543
Tax at the PRC statutory income tax rate	1,206,896	1,001,636
Non-deductible expenses (i)		
Allowance for impairment losses	592,805	573,147
Others	95,990	266,065
	688,795	839,212
Non-taxable income:		
Non-taxable income on bonds (ii)	(388,131)	(409,457)
Adjustment in respect of current income tax of prior years (iii)	(440,201)	(495,686)
Tax expense at effective income tax rate	1,067,359	935,705

(i) The non-deductible expenses mainly include staff costs in excess of the deductible part as regulated by the tax bureau, write-offs unapproved by tax bureau, and non-deductible entertainment expense, depreciation and amortization.

(ii) Non-taxable income on bonds mainly represents interest income on China's government bonds which are exempted from tax.

(iii) The amount for 2009 represents the difference between the tax actually paid by the Company in 2008 and the estimated tax for 2008, including effects of retrospective adjustment in deductible provisions for loan losses in 2008 according to new tax laws and regulations promulgated in 2009, and effects of deductible loan losses for 2008 as approved in 2009 which exceed the estimate in 2008.

Deferred income tax

The composition of deferred income tax asset and liability is as follows:

	31 December 2009	31 December 2008
Deferred income tax asset		
—Allowance for impairment losses	1,146,135	916,092
—Others	195,800	16,399
	1,341,935	932,491
Deferred income tax liability		
—Changes in fair value of available-for-sale investments	51,452	163,384
—Others	4,478	9,530
	55,930	172,914
Net deferred income tax	1,286,005	759,577

12. EARNINGS PER SHARE

	2009	2008
Calculation of earnings per share:		
Profit for the year attributable to shareholders (RMB1,000)	3,760,227	3,070,838
Number of ordinary shares in issue (1,000 shares)	4,990,528	4,990,528
Weighted average number of ordinary shares in issue (1,000 shares)	4,990,528	4,364,693
Basic and diluted earnings per share (RMB Yuan)	0.75	0.70

Basic earnings per share was calculated as profit for the year attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue. There were no dilutive events during the year ended 31 December 2009 and 31 December 2008, therefore, there was no difference between basic earnings per share and diluted earnings per share.

13. CASH AND BALANCES WITH CENTRAL BANKS

	31 December 2009	31 December 2008
Cash	1,823,538	1,589,096
Unrestricted balances with central banks	24,802,372	72,726,913
Cash and unrestricted balances with central banks	26,625,910	74,316,009
Mandatory reserves	64,445,818	52,117,344
Total	91,071,728	126,433,353

The Company is required to place mandatory reserve deposits with the PBOC, which are not available for use in daily operations.

14. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2009	31 December 2008
Nostro accounts:		
Banks operating in Mainland China	6,916,366	3,862,586
Banks operating outside Mainland China	2,562,749	2,887,184
	9,479,115	6,749,770
Less: Allowance for impairment losses	(5,500)	(5,500)
	9,473,615	6,744,270
Placements with banks and other financial institutions:		
Banks operating in Mainland China	22,900,762	16,171,000
Other financial institutions operating in Mainland China	121,912	132,877
	23,022,674	16,303,877
Less: Allowance for impairment losses	(132,912)	(143,877)
	22,889,762	16,160,000
Total	32,363,377	22,904,270

14. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Movements of the allowance for impairment losses

	Nostro accounts	Placements with banks and other financial institutions	Total
At 1 January 2008	5,500	150,960	156,460
Reversal for the year (Note 10)	–	(7,083)	(7,083)
At 31 December 2008 and 1 January 2009	5,500	143,877	149,377
Reversal for the year (Note 10)	–	(10,965)	(10,965)
At 31 December 2009	5,500	132,912	138,412

15. REVERSE REPURCHASE AGREEMENTS

	31 December 2009	31 December 2008
Analyzed by counterparty:		
Banks	209,952,004	134,583,416
Other financial institutions	–	758,468
Total	209,952,004	135,341,884
Analyzed by collateral:		
Bonds	12,150,000	25,047,000
Bills	197,802,004	110,294,884
Total	209,952,004	135,341,884

16. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2009	31 December 2008
Corporate loans	375,412,464	295,930,842
Discounted bills	7,484,400	20,641,575
Personal loans	47,328,720	38,905,421
	430,225,584	355,477,838
Less: Allowance for impairment losses on loans and advances (Note 16b)	(10,773,337)	(9,809,864)
Total	419,452,247	345,667,974

At 31 December 2009, the balance of bills rediscounted yet unmatured was RMB61,290,322,000 (at 31 December 2008: RMB56,124,274,000).

16a. Distribution of loans and advances by collateral:

	31 December 2009	31 December 2008
Loans secured by mortgages	164,668,702	131,484,151
Pledged loans	48,463,917	56,339,520
Guaranteed loans	145,367,786	116,701,835
Unsecured loans	71,725,179	50,952,332
Total	430,225,584	355,477,838

16b. Allowance for impairment losses on loans and advances

	2009			2008		
	Individual	Collective	Total	Individual	Collective	Total
At 1 January	4,319,214	5,490,650	9,809,864	4,414,900	3,113,417	7,528,317
Charge for the year	1,844,252	1,485,647	3,329,899	2,130,168	2,377,233	4,507,401
Reversal of interest on impaired loans (Note 4)	(214,614)	–	(214,614)	(227,950)	–	(227,950)
Recoveries of loans and advances previously written off	32,779	–	32,779	59,562	–	59,562
Transfer out	(197,633)	–	(197,633)	(2,981)	–	(2,981)
Write-offs	(1,986,958)	–	(1,986,958)	(2,054,485)	–	(2,054,485)
At 31 December	3,797,040	6,976,297	10,773,337	4,319,214	5,490,650	9,809,864

	2009			2008		
	Corporate loans	Personal loans	Total	Corporate loans	Personal loans	Total
At 1 January	9,276,606	533,258	9,809,864	7,089,796	438,521	7,528,317
Charge for the year	3,210,323	119,576	3,329,899	4,412,664	94,737	4,507,401
Reversal of interest on impaired loans	(214,614)	–	(214,614)	(227,950)	–	(227,950)
Recoveries of loans and advances previously written off	32,779	–	32,779	59,562	–	59,562
Transfer out	(197,633)	–	(197,633)	(2,981)	–	(2,981)
Write-offs	(1,986,958)	–	(1,986,958)	(2,054,485)	–	(2,054,485)
At 31 December	10,120,503	652,834	10,773,337	9,276,606	533,258	9,809,864

16b. Allowance for impairment losses on loans and advances (Continued)

	31 December 2009	31 December 2008
Gross loans and advances for which allowance for impairment losses are:		
– Individually assessed	6,592,731	7,165,564
– Collectively assessed	423,632,853	348,312,274
	430,225,584	355,477,838
Allowance for impairment losses:		
– Individually assessed	3,797,040	4,319,214
– Collectively assessed	6,976,297	5,490,650
	10,773,337	9,809,864
Net loans and advances for which allowance for impairment losses are:		
– Individually assessed	2,795,691	2,846,350
– Collectively assessed	416,656,556	342,821,624
	419,452,247	345,667,974
Identified impaired loans and advances (i)	7,018,880	7,549,826
Percentage of impaired loans and advances	1.63%	2.12%

(i) Identified impaired loans and advances are those on which there is objective evidence that impairment losses have occurred. Where individual or several loss events occurred on loans and advances after initial recognition and the effects of such events on future cash flows generated from the loans and advances can be reliably measured, then there is objective evidence that the loans have impaired.

16c. In previous years, the Company executed debt transfer agreements with other financial institutions, according to which, loans and guarantee rights under partial loan contracts of the Company were transferred to such financial institutions.

Due to the repurchase terms contained in or binding force of those debt transfer agreements, the Company may undertake final risk of those debts. Therefore, such balance was represented in loans and advances, and proceeds from such transfer were accounted for in other liabilities.

At 31 December 2009, there was no balance which should be presented in loans and advances as a result of debts transfer to those financial institutions (at 31 December 2008RMB51,365,000) (please refer to Note 25).

16d. At 31 December 2009, RMB91,576,609,000 of bills held by the Company were taken as collateral under repurchase agreements (at 31 December 2008: RMB65,223,327,000).

At 31 December 2009, none of loans and advances held by the Company were taken as collateral under repurchase agreements (at 31 December 2008: RMB643,760,000).

17. TRADING FINANCIAL ASSETS

	31 December 2009	31 December 2008
Investments in bonds:		
– Financial bonds	475,205	733,559
– Central bank bills	277,237	3,105,681
– Corporate bonds	13,282	978,444
Total	765,724	4,817,684
Listed	765,724	4,817,684

18. INVESTMENTS

	31 December 2009	31 December 2008
Held-to-maturity investments (Note 18a)	69,424,401	69,342,688
Available-for-sale investments (Note 18b)	11,722,557	18,028,614
Loans and receivables (Note 18c)	1,280,000	–
	82,426,958	87,371,302

18a. Held-to-maturity investments

	31 December 2009	31 December 2008
Investments in bonds, measured at amortised cost:		
– Government bonds	47,708,602	45,582,506
– Financial bonds	17,745,802	16,873,530
– Central bank bills	3,500,000	6,796,251
– Corporate bonds and others	520,523	195,669
	69,474,927	69,447,956
Allowance for impairment losses	(50,526)	(105,268)
	69,424,401	69,342,688

18a. Held-to-maturity investments (continued)

	31 December 2009	31 December 2008
Balance at 1 January	105,268	–
Charge/(reversal) for the year	(51,282)	107,146
Reversal of interest on impaired bonds	(3,460)	(1,878)
Balance at 31 December	50,526	105,268

The Company sold a significant amount of held-to-maturity investments in the financial year 2003, and had to reclassify the remaining held-to-maturity into available-for-sale investments. On 1 January 2006, the investments in those bonds were reclassified, and recognized as held-to-maturity investments with their carrying value of RMB51,439,548,000 measured at fair value as new amortised cost.

At 31 December 2009, the amount of unrealized gain/loss on those investments which has been recognized in equity was RMB195,785,000(at 31 December 2008: RMB245,339,000). Such unrealized gain/loss is amortised over the remaining tenor of those investments using effective interest rate method. In 2009, such amortization was RMB49,554,000 (2008: RMB49,975,000).

The difference between the new amortised cost and the amount at maturity continues to be amortised over the remaining tenor of such investment using effective interest rate method.

18b. Available-for-sale investments

	31 December 2009	31 December 2008
Investments in bonds, measured at fair value (i):		
– Government bonds	275,844	338,680
– Financial bonds	6,413,331	3,559,300
– Central bank bills	3,078,707	13,919,786
– Corporate bonds and others	1,872,857	129,030
Sub-total	11,640,739	17,946,796
Equity investments, measured at cost:		
– China UnionPay Co., Ltd. (ii)	81,250	81,250
– Visa International Service Association	568	568
Sub-total	81,818	81,818
Total	11,722,557	18,028,614

(i) Available-for-sale bond investments are presented at fair value, and any identified impairment losses are deducted from carrying value. Where the impairment losses decreased subsequently as a result of increase in fair value, such impairment losses are reversed through equity. The reversal of impairment losses on available-for-sale bond investments was RMB28,538,000 in 2009 (impairment losses recognized in equity in 2008: RMB139,560,000).

(ii) As unlisted equity investments among available-for-sale investments have no quotation at active market and their fair value could not be properly measured, they are measured at cost.

18c. Investment classified as loans and receivables mainly comprise trust products purchased by the Company for the purpose of issuing principal-protected wealth management products and used to invest in trust loans.

18d. At 31 December 2009, RMB20,233,920,000 of above bonds were taken as collateral under repurchase agreements and commercial bank time deposits agreement of central treasury cash management (at 31 December 2008: RMB32,280,040,000).

At 31 December 2009, RMB20,000,000 of above bonds were frozen by court due to legal disputes (at 31 December 2008: RMB20,000,000). The above frozen government bonds were not related to pending legal proceedings (please refer to Note 31a). The Company has set aside adequate allowance for above lawsuits.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instrument is a financial product whose value is determined by movements of specific financial instrument price, index or other variables. Specific financial instrument includes stock price, commodity price, bond price, price index, exchange rate and interest rate.

Notional amount of derivative financial instruments provides a basis for comparison with assets or liabilities measured at fair value in balance sheet, which indicates the volume of business transacted by the Company but does not reflect credit risk or market risk of the Company.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

At the end of the reporting period, the Company had derivative financial instruments as follows:

	31 December 2009						
	Notional amounts with remaining life of					Fair value	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange trading contracts	10,229,935	–	–	–	10,229,935	45	–
Exchange forward contracts	295,269	4,741,128	–	–	5,036,397	17,866	–
Currency swap contracts	921,631	170,555	–	–	1,092,186	–	1,532
Interest rate swap contracts	63,627	9,960	–	–	73,587	6,305	6,305
Total	11,510,462	4,921,643	–	–	16,432,105	24,216	7,837

	31 December 2008						
	Notional amounts with remaining life of					Fair value	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange trading contracts	9,671,144	–	–	–	9,671,144	1,591	–
Exchange forward contracts	803,258	–	–	–	803,258	903	–
Currency swap contracts	5,418,414	–	–	–	5,418,414	–	17,736
Interest rate swap contracts	4,751,306	1,842,486	73,586	–	6,667,378	440,637	440,637
Total	20,644,122	1,842,486	73,586	–	22,560,194	443,131	458,373

20. PROPERTY AND EQUIPMENT

	Properties and buildings	improvements on property and equipment	Office equipment and computers	Motor vehicles	Construction in progress	Investment property	Total
Cost							
1 January 2008	3,101,070	585,280	1,802,773	75,144	256,465	360,000	6,180,732
Acquisitions	163,704	97,570	348,887	11,301	321,802	–	943,264
Transfers-in/(out)	156,751	–	73	–	(107,824)	(49,000)	
Disposals	(117,047)	(243,922)	(157,632)	(5,524)	–	–	(524,125)
31 December 2008和1 January 2009	3,304,478	438,928	1,994,101	80,921	470,443	311,000	6,599,871
Acquisitions	15,434	157,056	329,968	12,634	357,165	–	872,257
Transfers-in/(out)	180,928	–	3,014	–	(183,942)	–	
Disposals	–	–	(135,890)	(9,747)	–	–	(145,637)
At 31 December 2009	3,500,840	595,984	2,191,193	83,808	643,666	311,000	7,326,491
Accumulated depreciation:							
1 January 2008	439,738	424,072	1,116,476	38,759	–	40,243	2,059,288
Charge for the year	90,916	84,887	206,409	6,088	9,106	397,406	
Disposals	(688)	(236,875)	(153,425)	(4,673)	–	(6,142)	(401,803)

20. PROPERTY AND EQUIPMENT (CONTINUED)

	Properties and buildings	improvements on property and equipment	Office equipment and computers	Motor vehicles	Construction in progress	Investment property	Total
At 31 December 2008 and 1 January 2009	529,966	272,084	1,169,460	40,174	–	43,207	2,054,891
Charge for the year	92,206	87,506	244,262	6,717	–	8,442	439,133
Disposals	–	–	(124,193)	(8,213)	–	–	(132,406)
At 31 December 2009	622,172	359,590	1,289,529	38,678	–	51,649	2,361,618
Net carrying amount:							
At 31 December 2009	2,878,668	236,394	901,664	45,130	643,666	259,351	4,964,873
At 31 December 2008	2,774,512	166,844	824,641	40,747	470,443	267,793	4,544,980

All the properties and buildings held by the Company are located in the PRC. At 31 December 2009, the process of obtaining the titleship for the Company's properties and buildings with a value of RMB3,586,000 (31 December 2008: RMB3,586,000) was still in progress.

Management of the Company is of the view that properties and buildings were not impaired as at the end of the reporting period.

Investment property of the Company refers to part of the Head Office under lease or to be leased. The rent for 2009 was RMB30,231,000 (2008: RMB30,234,000). No allowance for impairment losses on such investment property was charged as at 31 December 2009, as its fair value was higher than the carrying value with reference to value of property nearby.

21. OTHER ASSETS

	31 December 2009	31 December 2008
Interest receivable on:		
Bond investments	855,846	966,170
Loans and advances	32,728	18,822
Reverse repurchase agreements	682,606	781,813
Others	3,144	66,676
	1,574,324	1,833,481
Other receivables	951,151	673,020
Repossessed assets	422,182	530,999
Long-term prepaid expenses	339,386	268,296
Others	534	9,501
Total	3,287,577	3,315,297

22. REPURCHASE AGREEMENTS

	31 December 2009	31 December 2008
Analyzed by counterparty:		
Banks	107,758,509	85,343,327
Other financial institutions	–	643,760
Total	107,758,509	85,987,087
Analyzed by collateral:		
Bonds	16,181,900	20,120,000
Bills	91,576,609	65,223,327
Loans	–	643,760
Total	107,758,509	85,987,087

23. DUE TO CUSTOMERS

	31 December 2009	31 December 2008
Demand deposits:		
Corporate customers	227,019,393	179,633,066
Personal customers	26,913,207	19,701,769
	253,932,600	199,334,835
Time deposits:		
Corporate customers	172,055,771	144,485,251
Personal customers	56,621,312	43,916,985
	228,677,083	188,402,236
Margin deposits	93,822,693	88,039,145
Remittance payable and outward remittances	5,172,724	2,955,693
Structured deposits	73,288	6,617,668
Total	581,678,388	485,349,577

24. BONDS PAYABLE

	31 December 2009	31 December 2008
Financial bonds issued (i)	13,620,000	13,620,000
Hybrid capital bonds issued (ii)	4,000,000	4,000,000
Subordinated bonds issued (iii)	6,250,000	6,250,000
Total	23,870,000	23,870,000

(i) As approved by the PBOC and the CBRC, the Company issued non-callable financial bonds of RMB7.62 billion and RMB6.0 billion on 21-23 August 2007 and 17-19 October 2007 respectively, including:

(a) Five-year fixed-rate financial bonds of RMB5.06 billion issued on 21-23 August 2007, unsecured, with a coupon rate of 4.15%; the investor has the option to sell all or part of bonds to the issuer at face value at the end of the third year.

(b) Five-year floating-rate financial bonds of RMB2.56 billion issued on 21-23 August 2007, unsecured, with a coupon rate of base rate plus 0.76%; the base rate is 10-day average of three-month Shanghai Inter-bank Offered Rate as announced by China Foreign Exchange Trade System & Nation Interbank Funding Center.

(c) Five-year fixed-rate financial bonds of RMB1.7 billion issued on 17-19 October 2007, unsecured, with a coupon rate of 4.75%; the investor has the option to sell all or part of bonds to the issuer at face value at the end of the third year.

(d) Five-year floating-rate financial bonds of RMB4.3 billion issued on 17-19 October 2007, unsecured, with a coupon rate of base rate plus 0.85%; the base rate is determined in accordance with interest rate of one-year time deposit with lump-sum deposit and withdrawal as announced by the PBOC.

(ii) As approved by the PBOC and the CBRC, the Company issued callable hybrid capital bonds of RMB4.0 billion on 26-27 June 2007, including:

(a) 15-year fixed-rate capital bonds of RMB2.4 billion, with a coupon rate of 5.89%; as approved by regulatory authorities, the Company has the option to redeem all or part of the bonds at face value on the tenth year from issue date till the maturity. If the Bank does not exercise this option, the interest rate of the bonds will increase by 3 percentage points thereafter.

(b) 15-year floating-rate financial bonds of RMB1.6 billion, with a coupon rate of base rate plus 2%; the base rate is determined in accordance with interest rate of one-year time deposit with lump-sum deposit and withdrawal as announced by the PBOC. As approved by regulatory authorities, the Company has the option to redeem all or part of the bonds at face value on the tenth year from issue date till the maturity. If the Bank does not exercise this option, the interest rate of the bonds will increase by 1 percentage point thereafter.

(iii) As approved by the PBOC and the CBRC, the Company issued subordinated bonds in 2004 and 2006 respectively, including:

(a) Six-year floating-rate subordinated bonds of RMB4.25 billion issued in July-August 2004, with a coupon rate of one-year deposit interest rate as announced by the PBOC plus 2.72%, standing at 2.82%.

(b) 10-year fixed-rate callable subordinated bonds of RMB2.0 billion issued on 8-9 November 2006, with a coupon rate of 3.7%; as approved by regulatory authorities, the Company has the option to redeem all or part of the bonds at face value on 9 November 2011. If the Bank does not exercise this option, the interest rate of the bonds will increase by 3 percentage points thereafter to 6.7%.

25. OTHER LIABILITIES

	31 December 2009	31 December 2008
Interest payable	3,343,624	4,509,784
Wealth management product account payable	3,987,317	4,458,270
Bank drafts	1,663,563	1,254,755
Salaries and benefits payables	1,129,895	961,656
Sundry tax payables	499,567	489,820
Agency distribution of funds	370,168	118,262
On-lending	338,222	145,082
Dividend payable	31,700	47,870
Payable related to loans transfer (Note 16c)	–	51,365
Annuity payable	–	198
Others	668,600	676,134
Total	12,032,656	12,713,196

26. EQUITY

26a. Share capital

	31 December 2009	31 December 2008
Registered capital (par value per share: RMB1)	4,990,528	4,990,528
Paid-up capital (par value per share: RMB1)	4,990,528	4,990,528

26b. Capital reserve

The balances of capital reserve at the beginning and end of the year represent share premium arising from the issuance of new shares in 2003 less RMB700 million converted to share capital in 2004 and plus share premium of RMB10.59 billion arising from the private issuance of shares in 2008.

26c. Surplus reserves

According to the Articles of Association of the Company and generally accepted accounting principles in the PRC ("PRC GAAP"), the Company should appropriate a certain percentage of profit for the year to the statutory reserve, including statutory surplus reserve and discretionary surplus reserve. The statutory surplus reserve appropriated should be at least 10% of net profit under PRC GAAP until the reserve balance reaches 50% of the Company's registered capital or paid-up share capital. The amount of discretionary surplus reserve is determined by the shareholders. Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Company.

26d. Dividends

In 2009, the Company distributed dividend for 2008. Based on the total of 4.99 billion shares after listing, the Company paid to shareholders a cash dividend of RMB1.30 per ten shares (pre-tax), totaling RMB648,768,000. This profit distribution plan was reviewed and approved at the annual general meeting for 2008 held on 11 May 2009.

According to the profit distribution plan reviewed at the meeting of the Board of Directors dated 24 March 2010, the Company proposed to, based on the total of 4.99 billion shares after listing, distribute to shareholders a cash dividend of RMB1.30 per ten shares (pre-tax) for 2009, totaling RMB648,768,000. This distribution plan will be subject to approval of the general meeting of shareholders.

26e. Retained profits

According to the Articles of Association of the Company, the Company may distribute to shareholder the profit prepared under PRC GAAP provided that the profit has (1) satisfied all tax liabilities; (2) offset losses of previous years; and (3) been appropriated to surplus reserve and general reserve.

As set out in Note 2.1, these financial statements prepared in accordance with IFRS and its interpretations are not statutory financial statements of the Company. The Company appropriates statutory surplus reserve based on net profit audited by Chinese Certified Public Accountants.

According to relevant regulations of the MOF, the Company maintains a general reserve through the appropriation of profit to compensate possible losses related to risk assets which have not been identified yet. The general reserve, as a component of equity, should be less than 1% of the year end balance of risk assets. With a transition period of five years at most, the general reserve should be in place on a yearly basis and get adequate within three years from 1 July 2005. Pursuant to the resolution of the board of directors, an appropriation to the general reserve amounting to RMB1,582 million (2008: RMB2,081 million) was approved.

Distribution of profit is determined by the general meeting of shareholders of the Company, with reference to operating results, financial position and other factors the board of directors deems relevant.

27. OTHER COMPREHENSIVE INCOME/(LOSS)

	2009	2008
Other comprehensive income/(loss):		
Available-for-sale financial assets:		
Changes in fair value recorded in other comprehensive income	(428,800)	259,891
Income tax effect	107,200	(64,973)
	(321,600)	194,918
Transfer to income statement arising from disposal/impairment	(18,928)	192,614
Income tax effect	4,732	(48,154)
	(14,196)	144,460
Total	(335,796)	339,378

28. COMMITMENTS

28a. Operating lease commitments

At the end of the reporting period, the total future minimum lease payments of the Company in respect of non-cancelable operating leases were as follows:

	31 December 2009	31 December 2008
Within one year	450,329	383,721
Over one year but not more than five years	1,278,207	1,058,217
Over five years	608,256	541,910
Total	2,336,792	1,983,848

28b. Capital expenditure commitments

At the end of the reporting period, capital expenditure commitments of the Company were as follows:

	31 December 2009	31 December 2008
Contracted but not appropriated	298,536	88,136

29. OFF-BALANCE-SHEET ITEMS

	31 December 2009	31 December 2008
Letters of credit issued	11,218,362	6,034,874
Guarantees issued	4,844,867	4,936,118
Bank acceptances	149,350,212	137,072,956
Undrawn credit card limit	9,724,767	6,602,635

Credit commitments of the Company include loan commitments, undrawn credit card limit and letters of credit and guarantees issued to a third party at the request of customers.

Bank acceptances comprise undertakings by the Company to pay bills of exchange drawn on customers. The Company expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The Company provides designated customers with loan commitments. According the management, the Company does not undertake such commitments as they are conditional and revocable.

30. FUNDS UNDER MANAGEMENT

	31 December 2009	31 December 2008
Entrusted loans	17,076,753	11,109,694
Entrusted deposits	17,076,753	11,109,694
Entrusted wealth management assets	11,016,178	3,352,760
Entrusted wealth management funds	11,016,178	3,352,760

Entrusted deposits represent funds that depositors have instructed the Company to use to make loans to third parties as designated by them. The credit risk remains with the depositors.

Entrusted wealth management services refer to such activities that the Company entrusts third parties to invest by and manage funds from customers of the Company and pays investment income to the customers according to agreed terms and conditions and actual return. The Company does not guarantee the payment of principal and return at maturity.

31. CONTINGENT LIABILITIES

31a. Pending legal proceedings

As at 31 December 2009, the claimed amount of significant legal proceedings outstanding against the Company totaled RMB215,774,000 (at 31 December 2008: RMB167,080,000). In the opinion of management, the Company has made adequate allowance for any probable losses based on the current facts and circumstances.

31b. Redemption and undertaking commitments of government bonds

As an underwriting agent of the MOF, the Bank underwrites certain government bonds and sells the bonds to the general public, in which the Bank is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2009, the Bank had underwritten and sold bonds with an accumulated amount of RMB24,228 million (2008: RMB2,563 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Company prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

At the end of the reporting period, the Company had no unexpired underwriting obligations.

32. RELATED PARTY DISCLOSURES

32a. Shareholders and their affiliates

Transactions with shareholders holding 5% and above shares in the Company and their affiliates are set out below:

	31 December 2009	31 December 2008
Loans	1,123,000	1,336,780
Bond investments	1,238,750	300,000
Interest receivable	18,162	1,909
Deposits	2,901,826	5,571,577
Due from banks and financial institutions	47,864	678,107
Due to banks and financial institutions	29,947	28,164
Margin	45,000	–
Other liabilities	–	3,509,791
Credit commitments	97,466	46,290

	2009	2008
Interest income	85,961	46,024
Interest expense	22,004	35,617
Other net losses	2,160	–

	31 December 2009		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate swap contracts	–	–	–

	31 December 2008		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate swap contracts	4,090,405	–	316,137

32b. Related party transactions with other enterprises with the same key management personnel

	31 December 2009	31 December 2008
Loans	–	–
Deposits	3,968	12

	2009	2008
Interest income	–	–
Interest expense	34	1

Loans to shareholders and their affiliates, minority shareholders (holding less than 5% shares) and other enterprises with the same key management personnel are carried out under normal commercial terms.

32c. Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Company, directly or indirectly, including directors, supervisors and senior management members. Directors of the Company are of the view that above related party transactions between key management personnel and the Company are carried out under normal commercial terms as the same those with non-related parties.

Emoluments of directors, supervisors and key senior management members received from the Company are set out below:

	2009	**2008**
Emoluments	20,051	19,393

33. SEGMENT INFORMATION

Operating segments

The Company principally operates in Mainland China, with a nationwide presence of branches. The Company determines operating segments according to the organizational framework, management requirement and internal reporting regulations, and on this basis, determines reporting segments as follows:

(i) North China and Northeastern China: including Beijing, Tianjin, Hebei, Shandong, Liaoning and Inner Mongolia;
(ii) East China: including Jiangsu, Shanghai and Zhejiang;
(iii) Central China and South China: including Fujian, Guangdong, Guangxi, Hubei and Shanxi;
(iv) Western China: including Shaanxi, Xinjiang, Sichuan, Chongqing and Yunnan.

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Company.

The operating income and expense by geographic segment are prepared based on the place where branches generating income and expense are located. The assets and capital expenditures by segment are based on the place of assets.

Information of products and services

Income from external customers generated by provision of products and services or similar products and services combination are detailed in Note 4 INTEREST INCOME and Note 5 NET FEE AND COMMISSION INCOME.

33. SEGMENT INFORMATION (CONTINUED)

	North China and Northeastern China	East China	Central China and South China	Western China	Offset	Total
2009						
Net interest income	5,642,809	5,054,496	2,674,087	2,416,995	–	15,788,387
Of which: External income	6,648,400	4,817,237	2,054,782	2,267,968	–	15,788,387
Internal income/(expense)	(1,005,591)	237,259	619,305	149,027	–	–
Net fee and commission income	397,118	359,864	152,146	115,307	–	1,024,435
Net gains/losses on trading financial assets	46,789	–	–	–	–	46,789
Other operating income, net	158,397	65,545	25,531	30,782	–	280,255
Operating income	6,245,113	5,479,905	2,851,764	2,563,084	–	17,139,866
Staff costs	(1,627,254)	(852,338)	(494,907)	(403,319)	–	(3,377,818)
General & administrative expenses	(1,633,470)	(999,703)	(647,360)	(468,601)	–	(3,749,134)
Depreciation and amortisation	(370,002)	(82,351)	(50,823)	(57,765)	–	(560,941)
Business tax and surcharges	(453,114)	(430,546)	(189,745)	(173,966)	–	(1,247,371)
Allowance for impairment losses on loans and advances	(1,379,978)	(1,001,344)	(418,243)	(530,334)	–	(3,329,899)
Allowance for impairment losses on other assets	25,115	(6,161)	(54,593)	(11,478)	–	(47,117)
Profit before tax	806,410	2,107,462	996,093	917,621	–	4,827,586
Income tax						(1,067,359)
Profit for the year						3,760,227
Other segment information						
Capital expenditures	297,924	214,822	241,455	118,056	–	872,257

33. SEGMENT INFORMATION (CONTINUED)

	North China and Northeastern China	East China	Central China and South China	Western China	Offset	Total
31 December 2009						
Segment assets	500,859,203	234,770,578	161,217,100	113,546,762	(166,084,939)	844,308,704
Of which: Property and equipment	2,931,762	1,040,348	532,710	460,053	–	4,964,873
Other non-current assets (Note)	247,209	36,217	24,648	31,312	–	339,386
Undistributed assets						1,286,005
Total assets						845,594,709
Segment liabilities	(474,444,968)	(232,607,863)	(160,182,517)	(112,574,243)	166,084,939	(813,724,652)
Undistributed liabilities						(1,489,034)
Total liabilities						(815,213,686)
Other segment information						
Credit commitments	68,312,636	65,540,083	23,287,451	17,998,038	–	175,138,208

Note: Including long-term prepaid expenses and other long-term assets.

	North China and Northeastern China	East China	Central China and South China	Western China	Offset	Total
2008						
Net interest income	5,750,051	5,124,276	2,974,358	2,611,539	–	16,460,224
Of which: External income	6,848,911	4,819,127	2,265,695	2,526,491	–	16,460,224
Internal income/(expense)	(1,098,860)	305,149	708,663	85,048	–	–
Net fee and commission income	336,378	278,858	122,041	85,523	–	822,800
Net gains/losses on trading financial assets	45,965	–	–	–	–	45,965
Other operating income, net	108,621	71,059	28,031	38,580	–	246,291
Operating income	6,241,015	5,474,193	3,124,430	2,735,642	–	17,575,280
Staff costs	(1,639,748)	(783,124)	(529,172)	(428,001)	–	(3,380,045)
General & administrative expenses	(1,640,991)	(798,383)	(571,951)	(415,603)	–	(3,426,928)

33. SEGMENT INFORMATION (CONTINUED)

	North China and Northeastern China	East China	Central China and South China	Western China	Offset	Total
Depreciation and amortisation	(260,605)	(95,945)	(66,980)	(61,566)	–	(485,096)
Business tax and surcharges	(518,826)	(456,635)	(219,942)	(186,956)	–	(1,382,359)
Allowance for impairment losses on loans and advances	(1,643,715)	(1,201,937)	(937,218)	(724,531)	–	(4,507,401)
Allowance for impairment losses on other assets	(341,728)	(45,580)	14,459	(14,059)	–	(386,908)
Profit before tax	195,402	2,092,589	813,626	904,926	–	4,006,543
Income tax						(935,705)
Profit for the year						3,070,838
Other segment information						
Capital expenditures	391,863	263,936	136,429	90,877	–	883,105

	North China and Northeastern China	East China	Central China and South China	Western China	Offset	Total
31 December 2008						
Segment assets	517,507,726	193,466,561	105,499,725	93,932,838	(179,566,975)	730,839,875
Of which: Property and equipment	2,869,415	923,095	354,989	397,481	–	4,544,980
Other non-current assets (Note)	174,879	32,781	26,062	34,574	–	268,296
Undistributed assets						759,577
Total assets						731,599,452
Segment liabilities	(494,947,396)	(190,564,425)	(104,440,490)	(92,695,218)	179,566,975	(703,080,554)
Undistributed liabilities						(913,538)
Total liabilities						(703,994,092)
Other segment information						
Credit commitments	58,508,590	61,621,562	19,105,454	15,410,977	–	154,646,583

Note: Including long-term prepaid expenses and other long-term assets.

34. FINANCIAL INSTRUMENTS RISK PROFILE

A description and an analysis of the major risks faced by the Company are as follows:

34a. Credit risk

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advances, commitment or investment of funds. The Company is exposed to credit risk primarily due to loans, investments, guarantees and other credit related commitments.

The Company has established a set of credit quality assessment systems, under which lines of credit and collateral value or security level required are established according to risk status of the borrower or counterparty. Relevant risk assessment process comprises customer due diligence, risk rating, approval of credit line, review of loans and post-lending monitoring. Risk assessment is carried out on a regular basis to enable the Company to promptly monitor potential risks and adopt appropriate measures of mitigation.

To enhance the credit risk management practices, the Company also launches ongoing training programs for credit officers at different levels.

In addition to the credit risk exposures on credit-related assets and amounts due from or lending to banks and other financial institutions, credit risk also arises in other areas.

For instance, credit risk exposure also arises from derivative financial instruments which are, however, limited to derivative financial assets, as recorded in the statement of financial position.

In addition, the Company also makes available to its customers guarantees which may require the Company to make payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the Company to similar risks as loans and these are mitigated by the same control processes and policies.

Risk concentration

Credit risk is often greater when counterparties are concentrated in one single industry or geographical location or have comparable economic characteristics. Financial instrument portfolio of the Company is classified by industry and region.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Corporate loans that are classified as substandard, doubtful or loss are assessed individually for impairment.

If there is objective evidence that an impairment loss on a loan or advance has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognized in the income statement. In determining allowances on an individual basis, the following factors are considered: the sustainability of the counterparty's business plan; the borrower's ability to improve performance once a financial difficulty has arisen; projected receipts and the expected payout should bankruptcy ensue; the availability of other financial support and the realizable value of collateral; and the timing of the expected cash flows.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances occur.

Collectively assessed

Loans that are assessed for impairment losses on a collective basis include all loans for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including adverse changes in the payment status of borrowers in the group of loans; and national or local economic conditions that correlate with defaults on assets in the portfolio of loans.

Homogenous Groups of Loans Not Considered Individually Significant

For homogeneous groups of loans, the Company uses a collective assessment approach for impairment losses. The approach analyses historical trends of probability of default and the amount of the consequential loss, as well as evaluates current economic conditions that may have a consequential impact on inherent losses in the portfolio.

Individually Assessed Loans with No Objective Evidence of Impairment

When no impairment can be identified for individual loans, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows, these loans are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This loss covers those loans that were impaired at the end of the reporting period but which would not be individually identified as impaired until some time in the future. The collective impairment loss is assessed after taking into account historical loss experience in portfolios of similar risk characteristics; and the current economic and credit environment and, whether these, in management's experience, indicate that the actual level of incurred but not yet identified losses is likely to be greater or less than that suggested by historical experience.

As soon as information that specifically identifies objective evidence of impairment on individual assets in a pool is available, those assets are excluded and individually assessed. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

Collateral

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, mainly collateralized by bills, loans or investment securities;
- For commercial lending, mainly collateralized by charges over land and properties and other assets of the borrowers; and
- For retail lending, mainly collateralized by mortgages over residential properties.

Management monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the Company's policy to dispose of repossessed assets in an orderly manner. In general, the Company does not occupy repossessed assets for business use.

At 31 December 2009 and 31 December 2008, the Company had no collateral which can be re-collateralized without any default of the collateral provide under terms and conditions of agreements.

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

As at the end of the reporting period, the maximum credit risk exposure of the Company without taking account of any collateral and other credit enhancements is set out below:

	31 December 2009	31 December 2008
On-balance sheet:		
Balances with central banks	89,248,190	124,844,257
Due from banks and other financial institutions	32,363,377	22,904,270
Reverse repurchase agreements	209,952,004	135,341,884
Loans and advances to customers	419,452,247	345,667,974
Financial investments		
– Held-to-maturity bond investments	69,424,401	69,342,688
– Available-for-sale bond investments	11,640,739	17,946,796
– Loans and receivables	1,280,000	–
– Trading financial assets	765,724	4,817,684

As at the end of the reporting period, the maximum credit risk exposure of the Company without taking account of any collateral and other credit enhancements is set out below: (continued)

	31 December 2009	31 December 2008
On-balance sheet:		
Derivative financial assets	24,216	443,131
Other assets	2,526,009	2,516,002
	836,676,907	723,824,686
Off-balance sheet:		
Credit commitments	175,138,208	154,646,583
Total credit risk exposure	1,011,815,115	878,471,269

(ii) Credit Quality

Risk concentrations

The Company principally provides loans and credit commitments to customers in Mainland China. Different geographic areas and industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk. The distribution of loans and advances to customers by industry is as follows:

In RMB millions	31 December 2009		31 December 2008	
Manufacturing	119,444	28%	106,114	30%
Production and supply of electric power, gas and water	19,794	5%	20,819	6%
Construction	24,393	6%	24,783	7%
Transportation, storage and postal services	30,021	7%	21,267	6%
Wholesale and retail	51,608	12%	56,956	16%
Property development	33,545	8%	23,165	6%
Leasing and commercial services	59,526	14%	24,095	7%
Others	91,895	20%	78,279	22%
Total	430,226	100%	355,478	100%

Loans and advances to customers of the Company are mainly granted to non-bank customers in Mainland China, and the distribution of loans and advances to customers by geographic region is as follows:

In RMB millions	31 December 2009	31 December 2008
North China and Northeastern China	155,496	128,883
East China	149,400	118,229
Central China and South China	64,896	58,720
Western China	60,434	49,646
Total	430,226	355,478

The table below sets out credit quality of major assets that are subject to credit risk:

31 December 2009	Neither past due nor impaired	Past due but not impaired	Impaired	Allowance for impairment losses	Total
Due from banks and other financial institutions	32,363,377	–	138,412	(138,412)	32,363,377
Reverse repurchase agreements	209,952,004	–	–	–	209,952,004
Loans and advances to customers	422,737,952	468,752	7,018,880	(10,773,337)	419,452,247
Investments classified as loans and receivables	1,280,000	–	–	–	1,280,000
Bond investments	81,565,708	–	354,360	(89,204)	81,830,864

31 December 2008	Neither past due nor impaired	Past due but not impaired	Impaired	Allowance for impairment losses	Total
Due from banks and other financial institutions	22,904,270	–	149,377	(149,377)	22,904,270
Reverse repurchase agreements	135,341,884	–	–	–	135,341,884
Loans and advances to customers	346,731,868	1,196,144	7,549,826	(9,809,864)	345,667,974
Bond investments	91,886,264	–	464,415	(243,511)	92,107,168

Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occur after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated.

The fair value of collateral that the Company held relating to loans past due but not impaired as at 31 December 2009 amounted to RMB1,083,726,000 (at 31 December 2008: RMB2,636,781,000). The collateral mainly consists of land, properties, equipment, equity and also others.

The fair value of collateral that the Company held relating to impaired loans as at 31 December 2009 amounted to RMB7,343,162,000 (at 31 December 2008: RMB6,908,559,000). The collateral mainly consists of land, properties, equipment, equity and also others.

Loans and advances to customers

The following table presents collateral analysis of loans and advances to customers which are neither past due nor impaired:

	31 December 2009	31 December 2008
Loans secured by mortgages	161,430,739	129,943,058
Pledged loans	48,022,436	52,979,939
Guaranteed loans	142,563,159	113,624,572
Unsecured loans	70,721,618	50,184,299
Total	422,737,952	346,731,868

Among above loans neither past due nor impaired, most borrowers are able to perform contracts; there are adverse factors affecting repayment of less than 10% loans, but principal and interest of those loans are still paid on time.

Bond Investments

The following table presents issuers and types of bond investments which are neither past due nor impaired:

	31 December 2009			
	Held-to-maturity investments	Available-for-sale investments	Trading investments	Total
Government and central bank	51,208,602	3,354,551	277,237	54,840,390
Policy banks	12,403,875	6,225,839	136,538	18,766,252
Banks and other financial institutions	5,147,831	94,842	338,667	5,581,340
Enterprises	520,523	1,843,921	13,282	2,377,726
Total	69,280,831	11,519,153	765,724	81,565,708

	31 December 2008			
	Held-to-maturity investments	Available-for-sale investments	Trading investments	Total
Government and central bank	52,378,756	14,258,466	3,105,681	69,742,903
Policy banks	12,115,557	3,264,093	417,429	15,797,079
Banks and other financial institutions	4,525,634	189,408	316,130	5,031,172
Enterprises	195,669	140,997	978,444	1,315,110
Total	69,215,616	17,852,964	4,817,684	91,886,264

Ageing analysis of financial assets past due but not impaired

The following tables present the ageing analysis of financial assets of the Company that are subject to credit risk which are past due but not impaired as at 31 December 2009 and 31 December 2008:

	Corporate loans		Personal loans		Total	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Less than one month	304,170	420,842	8,167	39,326	312,337	460,168
One to two months	–	460,691	19,281	49,056	19,281	509,747
Two to three months	26,293	197,089	10,841	29,140	37,134	226,229
Over three months	100,000	–	–	–	100,000	–
Total	430,463	1,078,622	38,289	117,522	468,752	1,196,144

The Company has recovered loans which are past due for over three months but not impaired in January 2010.

Renegotiated financial assets

The carrying amount of renegotiated financial assets which were determined to be past due or impaired is as follows:

	31 December 2009	31 December 2008
Loans and advances to customers	330,851	684,518

Credit quality of other assets

At 31 December 2009, adequate allowance was in place for impaired loans, and partial loans past due but not impaired as a result of short-term financial difficulty of borrowers were not classified as impaired loans as there was no objective evidence of impairment.

The Company regularly monitors relevant loans and adjusts the classification according to specific situation. For impaired loans, the Company sets aside allowance based on the historic default rate and loss rate of overall loans.

(iii) Collateral

During the year, the Company took possession of collateral held as security with a carrying amount of RMB53,139,000 (2008: RMB234,039,000). Such collateral mainly comprises land and properties and equipment.

34b. Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. The Company manages its liquidity risk through the asset and liability management department and aims at optimizing the structure of assets and liabilities, maintaining the stability of the deposit base, projecting cash flows and evaluating the level of current assets

On behalf of the Company, the asset and liability management department monitors liquidity risk to ensure effective management. The department is responsible for reviewing and deciding policies concerning liquidity risk management; reviewing and deciding liquidity risk monitoring indicators and warning value; listening to and discussing report on liquidity risk on a regular basis; and reviewing and deciding liquidity risk management measures.

Major measures of liquidity risk management include analysis of liquidity risk exposure based on asset and liability maturity analysis, and bridging the liquidity gap.

Analysis of the remaining maturity of the Company's assets and liabilities as at the end of the reporting period is set out below:

In RMB millions

	31 December 2009					
	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Total
Cash and balances with central banks	91,072	–	–	–	–	91,072
Due from banks and other financial institutions	5,176	27,187	–	–	–	32,363
Reverse repurchase agreements	–	155,670	54,282	–	–	209,952
Loans and advances to customers	1,694	56,684	173,775	134,352	52,947	419,452
Trading financial assets	–	34	68	531	133	766
Investments	–	4,998	17,835	29,414	30,180	82,427
Derivative financial assets	–	6	18	–	–	24
Property and equipment	–	–	–	1,827	3,138	4,965
Other assets	–	824	1,473	2,277	–	4,574
Total assets	97,942	245,403	247,451	168,401	86,398	845,595
Liabilities:						
Due to banks and other financial institutions	49,201	29,698	3,178	6,300	–	88,377
Repurchase agreements	–	74,401	33,358	–	–	107,759
Due to customers	305,603	138,571	110,109	27,299	96	581,678
Derivative financial liabilities	–	7	1	–	–	8
Bonds payable	–	–	4,250	15,620	4,000	23,870
Income tax payable	–	1,042	447	–	–	1,489
Other liabilities	1,908	6,846	1,066	1,922	291	12,033
Total liabilities	356,712	250,565	152,409	51,141	4,387	815,214
Net liquidity	(258,770)	(5,162)	95,042	117,260	82,011	30,381

Analysis of the remaining maturity of the Company's assets and liabilities as at the end of the reporting period is set out below: (continued)

In RMB millions

	31 December 2008					
	Overdue/ repayable on demand	**Less than three months**	**Three months to one year**	**One to five years**	**More than five years**	**Total**
Assets:						
Cash and balances with central banks	126,433	–	–	–	–	126,433
Due from banks and other financial institutions	6,609	11,355	4,940	–	–	22,904
Reverse repurchase agreements	–	113,545	21,797	–	–	135,342
Loans and advances to customers	2,296	65,077	185,156	60,909	32,230	345,668
Trading financial assets	–	771	1,662	2,201	184	4,818
Investments	–	12,776	12,518	36,578	25,499	87,371
Derivative financial assets	–	346	92	5	–	443
Property and equipment	–	–	–	1,503	3,042	4,545
Other assets	9	1,083	945	2,038	–	4,075
	135,347	204,953	227,110	103,234	60,955	731,599
Liabilities:						
Due to banks and other financial institutions	47,778	14,111	23,613	9,200	–	94,702
Repurchase agreements	–	75,408	10,579	–	–	85,987
Due to customers	202,095	134,276	128,857	19,890	232	485,350
Derivative financial liabilities	–	361	92	5	–	458
Bonds payable	–	–	–	19,870	4,000	23,870
Income tax payable	–	640	274	–	–	914
Other liabilities	220	7,517	3,352	1,525	99	12,713
Total liabilities	250,093	232,313	166,767	50,490	4,331	703,994
Net liquidity	(114,746)	(27,360)	60,343	52,744	56,624	27,605

The tables below sets out the maturity profile of the Company's liabilities based on the contractual undiscounted cash flows. The balances of some items incorporate estimated interest expense to be paid at maturity.

In RMB millions

	31 December 2009					
	Repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Total
Due to banks and other financial institutions	49,201	29,894	3,726	7,444	–	90,265
Repurchase agreements	–	74,503	33,579	–	–	108,082
Due to customers	305,603	138,867	111,472	30,629	113	586,684
Bonds payable	–	–	4,378	17,756	7,455	29,589
Income tax payable*	–	1,042	447	–	–	1,489
Other liabilities *	1,908	6,846	1,066	1,922	291	12,033
Total	356,712	251,152	154,668	57,751	7,859	828,142
Derivative cash flows:						
Derivative financial instruments settled on net basis	–	–	–	–	–	–
Derivative financial instruments settled on gross basis:						
Of which: Cash inflows	–	11,448	4,901	–	–	16,349
Cash outflows	–	(11,450)	(4,883)	–	–	(16,333)

	31 December 2008					
	Repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Total
Due to banks and other financial institutions	47,778	14,279	25,418	10,376	–	97,851
Repurchase agreements	–	75,551	10,667	–	–	86,218
Due to customers	202,095	134,427	130,020	22,670	273	489,485
Bonds payable	–	–	–	23,408	7,987	31,395
Income tax payable*	–	640	274	–	–	914
Other liabilities *	220	7,517	3,352	1,525	99	12,713
Total	250,093	232,414	169,731	57,979	8,359	718,576
Derivative cash flows:						
Derivative financial instruments settled on net basis	–	–	–	–	–	–
Derivative financial instruments settled on gross basis:						
Of which: Cash inflows	–	15,918	–	–	–	15,918
Cash outflows	–	(15,933)	–	–	–	(15,933)

* The amounts of income tax payable and other liabilities under maturity analysis of contractual undiscounted cash flows are the same with those under maturity analysis, as there is no interest expense.

Analysis of credit commitments by contractual expiry date:

	31 December 2009					
	Repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Total
Credit commitments	165,282	4,166	4,945	432	313	175,138

	31 December 2008					
	Repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Total
Credit commitments	150,255	1,505	2,286	153	448	154,647

34c. Market risk

Market risk is the risk of loss, in respect of the Company's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. The objective of market risk management is to maximize risk return through management and control of market risk exposure. Market risk arises from both the Company's trading and non-trading business.

The Company is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

The Company's currency risk mainly results from foreign currency investment portfolio in proprietary treasury operation.

The Company considers the market risk arising from commodity or stock prices fluctuations in respect of its investment portfolios as immaterial.

The risk management department of the Company is responsible for formulating market risk management policies. In accordance with risk management policies of the Company, the planning and finance department is responsible for managing the scale and structure of items in the statement of financial position and related interest rate risk and exchange rate risk. The treasury department is responsible for managing RMB and foreign currency denominated investment portfolio of the Head Office, carrying out proprietary transactions and agency transactions, and implementing rules and regulations of market risk management.

The Company monitors market risk of trading bonds, available-for-sale bonds and other non-trading investment portfolios separately. Trading investment portfolios include exchange rate and interest rate derivative instruments apart from trading bonds. The Company employs basis point present value to measure and monitor market risk of trading businesses and available-for-sale bond investments, and uses net interest income sensitivity analysis, spread analysis and exchange rate concentration to analyze market risk of all businesses. Please refer to Note 34 (d) and 34 (e) for details.

34d. Currency risk

The Company conducts it businesses mainly in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. Transactions in foreign currencies mainly arise from the Company's treasury operations.

The exchange rate of RMB to USD is managed under a floating exchange rate system. The HKD exchange rate has been pegged to the USD and therefore the exchange rate of RMB to HKD has fluctuated in line with the changes in the exchange rate of RMB to USD.

The Company manages its currency risk through various methods, including regularly performing currency risk exposure of assets and liabilities to keep currency risk controllable and using exchange rate derivatives available.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rates against the RMB, with all other variables held constant, on profit before tax. A negative amount in the table reflects a potential net reduction in profit before tax, while a positive amount reflects a potential net increase.

31 December 2009

(In RMB millions)

Currency	Change in currency rate	Effect on profit before tax
USD	+/- 5%	+/- 63
HKD	+/- 5%	+/- 1

31 December 2008

(In RMB millions)

Currency	Change in currency rate	Effect on profit before tax
USD	+/- 5%	–/+ 190
HKD	+/- 5%	–/+ 5

The above effects on profit before tax are based on currency risk exposure analyzed by management.

The Company holds no foreign currency equity; therefore, changes in exchange rate do not affect equity.

The table below presents currency analysis of assets and liabilities and forecast cash flows with significant exposure:

	31 December 2009 (in RMB millions)				
	RMB	**USD**	**HKD**	**Others**	**Total**
Assets:					
Cash and balances with central banks	90,406	513	81	72	91,072
Due from banks and other financial institutions	27,490	2,478	1,270	1,125	32,363
Reverse repurchase agreements	209,952	–	–	–	209,952
Loans and advances to customers	414,925	4,247	59	221	419,452
Trading financial assets	277	466	–	23	766
Investments	81,030	1,284	18	95	82,427
Derivative financial assets	6	17	–	1	24
Property and equipment	4,965	–	–	–	4,965
Other assets	4,501	64	7	2	4,574
Total assets	833,552	9,069	1,435	1,539	845,595
Liabilities:					
Due to banks and other financial institutions	87,099	1,217	22	39	88,377
Repurchase agreements	107,759	–	–	–	107,759
Due to customers	572,636	6,488	1,392	1,162	581,678
Derivative financial liabilities	8	–	–	–	8
Bonds payable	23,870	–	–	–	23,870
Income tax payable	1,489	–	–	–	1,489
Other liabilities	11,598	100	2	333	12,033
Total liabilities	804,459	7,805	1,416	1,534	815,214
Net long position	29,093	1,264	19	5	30,381
Off-balance sheet credit commitments	163,329	10,148	18	1,643	175,138

The table below presents currency analysis of assets and liabilities and forecast cash flows with significant exposure: (continued)

	31 December 2008 (in RMB millions)				
	RMB	**USD**	**HKD**	**Others**	**Total**
Assets:					
Cash and balances with central banks	125,520	772	78	63	126,433
Due from banks and other financial institutions	17,886	3,886	401	731	22,904
Reverse repurchase agreements	135,342	–	–	–	135,342
Loans and advances to customers	341,844	3,486	163	175	345,668
Trading financial assets	4,353	446	–	19	4,818
Investments	86,058	1,185	106	22	87,371
Derivative financial assets	417	26	–	–	443
Property and equipment	4,545	–	–	–	4,545
Other assets	3,980	85	8	2	4,075
Total assets	719,945	9,886	756	1,012	731,599
Liabilities:					
Due to banks and other financial institutions	93,412	1,224	66	–	94,702
Repurchase agreements	85,987	–	–	–	85,987
Due to customers	471,554	12,269	720	807	485,350
Derivative financial liabilities	431	27	–	–	458
Bonds payable	23,870	–	–	–	23,870
Income tax payable	914	–	–	–	914
Other liabilities	12,285	159	68	201	12,713
Total liabilities	688,453	13,679	854	1,008	703,994
Net long/(short) position	31,492	(3,793)	(98)	4	27,605
Off-balance sheet credit commitments	146,246	7,468	9	924	154,647

34e. Interest rate risk

The Company's interest rate risk arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Company's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes RMB benchmark interest rates which include a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by: monthly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates; optimizing the differences in timing between contractual maturities and repricing of interest-generating assets and interest-bearing liabilities; and managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's net interest income and equity.

The sensitivity of net interest income is the effect of the assumed changes in interest rates on net interest income for the year, based on non-trading floating-rate financial assets and financial liabilities held at year end.

(in RMB millions)

	Change in basis points	**Sensitivity of net interest income**
31 December 2009	+/- 25BP	+/- 92
	+/- 50BP	+/- 184
31 December 2008	+/- 25BP	+/- 78
	+/- 50BP	+/- 156

The above effects on net interest income are based on interest risk exposure of assets and liabilities analyzed by management.

The sensitivity of equity is the effect of the assumed changes in interest rates on equity, calculated by revaluing available-for-sale financial assets held at year end.

(In RMB1,000)

	Basis point present value
31 December 2009	2,611
31 December 2008	2,246

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Company's assets and liabilities as at the end of the reporting period:

	31 December 2009 (In RMB millions)					
	Less than three months	**Three months to one year**	**One to five years**	**More than five years**	**Non-interest-bearing**	**Total**
Assets:						
Cash and balances with central banks	88,833	–	–	–	2,239	91,072
Due from banks and other financial institutions	32,293	–	–	–	70	32,363
Reverse repurchase agreements	155,670	54,282	–	–	–	209,952
Loans and advances to customers	114,305	305,147	–	–	–	419,452
Trading financial assets	35	68	530	133	–	766
Investments	4,997	17,835	29,415	30,098	82	82,427
Derivative financial assets	–	–	–	–	24	24
Property and equipment	–	–	–	–	4,965	4,965
Other assets	–	–	–	–	4,574	4,574
Total assets	396,133	377,332	29,945	30,231	11,954	845,595
Liabilities:						
Due to banks and other financial institutions	78,869	3,178	6,300	–	30	88,377
Repurchase agreements	74,402	33,357	–	–	–	107,759
Due to customers	438,957	110,109	27,299	96	5,217	581,678
Derivative financial liabilities	–	–	–	–	8	8
Bonds payable	6,810	5,900	8,760	2,400	–	23,870
Income tax payable	–	–	–	–	1,489	1,489
Other liabilities	–	–	–	338	11,695	12,033
Total liabilities	599,038	152,544	42,359	2,834	18,439	815,214
Interest rate exposure	(202,905)	224,788	(12,414)	27,397	N/A	N/A

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Company's assets and liabilities as at the end of the reporting period: (continued)

	31 December 2008 (In RMB millions)					
	Less than three months	**Three months to one year**	**One to five years**	**More than five years**	**Non-interest-bearing**	**Total**
Assets:						
Cash and balances with central banks	124,228	–	–	–	2,205	126,433
Due from banks and other financial institutions	17,851	4,940	–	–	113	22,904
Reverse repurchase agreements	113,545	21,797	–	–	–	135,342
Loans and advances to customers	94,198	251,470	–	–	–	345,668
Trading financial assets	771	1,662	2,201	184	–	4,818
Investments	12,845	12,507	36,532	25,405	82	87,371
Derivative financial assets	–	–	–	–	443	443
Property and equipment	–	–	–	–	4,545	4,545
Other assets	–	–	–	–	4,075	4,075
Total assets	363,438	292,376	38,733	25,589	11,463	731,599
Liabilities:						
Due to banks and other financial institutions	61,861	23,613	9,200	–	28	94,702
Repurchase agreements	75,408	10,579	–	–	–	85,987
Due to customers	333,415	128,857	19,890	232	2,956	485,350
Derivative financial liabilities	–	–	–	–	458	458
Bonds payable	6,810	5,900	8,760	2,400	–	23,870
Income tax payable	–	–	–	–	914	914
Other liabilities	–	–	–	145	12,568	12,713
Total liabilities	477,494	168,949	37,850	2,777	16,924	703,994
Interest rate exposure	(114,056)	123,427	883	22,812	N/A	N/A

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. If there is an active market, such as authorized stock exchange, market prices of financial instruments are the best representatives of their fair value. As market prices of some financial assets or liabilities held or issued by the Company are not available, the Company uses discounted cash flow analysis or other valuation techniques to determine fair value of such financial instruments. In this case, fair value is affected by future cash flow amount, timing assumption and discount rate adopted.

Financial assets

Financial assets of the Company include cash, balances with central banks, due from banks and other financial institutions, reverse repurchase agreements, loans and advances to customers and investments.

Balances with central banks, and due from banks and other financial institutions

Balances with central banks and due from banks and other financial institutions are priced at market interest rate, and mainly get due within on year, therefore, their carrying value and fair value have no big difference.

Loans and advances to customers

Loans and advances to customers are priced at a floating rate close to interest rate prescribed by PBOC, therefore, their carrying value and fair value have no big difference.

Investment

Except partial equity investments measured at cost, available-for-sale investments and bond investments measured at fair value through profit or loss are measured at fair value in the statement of financial position.

Financial liabilities

Financial liabilities of the Company include due to banks and other financial institutions, repurchase agreements, due to customers and subordinated bonds issued.

Due to banks and other financial institutions

Due to banks and other financial institutions priced at market interest rate, and mainly get due within on year, therefore, their carrying value and fair value have no big difference.

Due to customers

Due to customers principally comprise demand deposits or short-term deposits, and their carrying value and fair value have no big difference.

The table below sets out carrying value and fair value of held-to-maturity bond investments, subordinated bonds issued, hybrid capital bonds and financial bonds whose fair value is not reflected or disclosed:

	Carrying value	**Fair value**
31 December 2009		
Held-to-maturity bond investments	69,424,401	69,485,501
Bonds payable		
Subordinated bonds issued	6,250,000	6,248,360
Hybrid capital bonds issued	4,000,000	3,851,274
Financial bonds issued	13,620,000	13,736,026
31 December 2008		
Held-to-maturity bond investments	69,342,688	72,141,678
Bonds payable		
Subordinated bonds issued	6,250,000	6,270,200
Hybrid capital bonds issued	4,000,000	4,116,400
Financial bonds issued	13,620,000	13,667,238

The assumptions and technique used to estimate fair value are as follows:

(a) Fair value of financial assets measured at fair value through profit or loss and of available-for-sale financial assets are determined with reference to market price available. In the event of unavailable market price, pricing model or discounted cash flow analysis is employed. Carrying value of such assets is their fair value.

(b) Fair value of held-to-maturity financial assets, subordinated bonds, hybrid capital bonds and financial bonds are determined with reference to market price available. In the event of unavailable market price, pricing model or discounted cash flow analysis is employed.

(c) Fair value of current assets and assets due within 12 months is assumed to be their carrying value. This assumption applies to current assets and other short-term financial assets and liabilities.

(d) Fair value of loans with fixed rates is estimated by comparing the market interest rate when the loans were granted and the prevailing market interest rate of similar loans. Interest rates of most loans are repriced yearly in response to changes in benchmark interest rate announced by the PBOC, therefore, their carrying value and fair value have no big difference. Changes in credit quality of loans in a loan portfolio are not taken into account, as the effect of credit risk has been reflected in allowance for impairment losses on loans and advances, and deducted from carrying value and fair value.

(e) Applicable interest rate of deposits is determined based on specific product, which could be fixed or floating. Fair value of demand deposits and savings account with no designated due date is the amount payable at request of customers. As most time deposits are short-term, their carrying value and fair value have no big difference.

The above assumptions and methods provide unified basis for estimating fair value of assets and liabilities, but other institutions may use different methods and assumptions. Therefore, fair value disclosed by financial institutions is not necessarily comparable.

Determination of fair value and fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: valuation techniques, all inputs that have material effect on valuation results adopt observable market information, either directly or indirectly; and

Level 3: valuation techniques, some inputs for the asset or liability that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:				
Derivative financial assets				
Exchange trading contracts	–	45	–	45
Exchange forward contracts	–	17,866	–	17,866
Interest rate swap contracts	–	6,305	–	6,305
	–	24,216	–	24,216
Trading financial assets	318,326	447,398	–	765,724
Available-for-sale bond investments	29,656	11,611,083	–	11,640,739
	347,982	12,082,697	–	12,430,679
Financial liabilities:				
Derivative financial liabilities				
Currency swap contracts	–	(1,532)	–	(1,532)
Interest rate swap contracts	–	(6,305)	–	(6,305)
	–	(7,837)	–	(7,837)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy: (continued)

31 December 2008	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial assets				
Exchange trading contracts	–	1,591	–	1,591
Exchange forward contracts	–	903	–	903
Interest rate swap contracts	–	440,637	–	440,637
	–	443,131	–	443,131
Trading financial assets	298,423	4,519,261	–	4,817,684
Available-for-sale bond investments	–	17,946,796	–	17,946,796
	298,423	22,909,188	–	23,207,611
Financial liabilities:				
Derivative financial liabilities				
Currency swap contracts	–	(17,736)	–	(17,736)
Interest rate swap contracts	–	(440,637)	–	(440,637)
	–	(458,373)	–	(458,373)

36. CAPITAL MANAGEMENT

The Company's objectives on capital management are:

- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Company's stability and growth;
- To allocate capital in an efficient and risk-based approach to optimize risk adjusted return to the shareholders; and
- To maintain an adequate capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Company based on regulations issued by the CBRC. The required information is filed with the CBRC by the Company quarterly.

CBRC requires commercial banks to maintain the capital adequacy ratio and core capital adequacy ratio not below the minimum of 8% and 4% respectively.

The Company computes the capital adequacy ratio and core capital adequacy ratio in accordance with the "Regulations Governing Capital Adequacy of Commercial Banks" and related regulations promulgated by the CBRC.

The capital adequacy ratios and related components of the Company are computed in accordance with the statutory financial statements of the Company prepared under PRC GAAP.

	31 December 2009	31 December 2008
Core capital	29,553,094	26,415,700
Supplementary capital	14,516,357	13,930,262

37. EVENTS AFTER THE REPORTING PERIOD

On 27 December 2009, the 16th meeting of the fifth Board of Directors reviewed and approved the Proposal on Requesting the Board of Directors to Authorize the Senior Management to Handle Matters concerning the Incorporation of Daxing Hua Xia Village Bank, approving the Company to establish Beijing Daxing Hua Xia Village Bank Co., Ltd. In January 2010, the Company obtained the Reply of CBRC Beijing Office to the Preparation of Beijing Daxing Hua Xia Village Bank Co., Ltd. (J.Y.J.F [2009] No. 869) which approved the Company to establish Beijing Daxing Hua Xia Village Bank Co., Ltd. At present, preparation for the establishment is under way.

In January and February 2010, the Company obtained approval from CBRC and PBOC for the issue of subordinated bonds. In accordance with Reply of CBRC regarding the Issue of Subordinated Bonds by Hua Xia Bank (Y.J.F. [2010] No.22) and the Decision of PBOC for Granting Administrative License (Y.SH.CH.X.ZH.Z. [2010] No.12), the Company issued RMB4.4 billion 10-year fixed rate subordinated bonds in national inter-bank bond market on 26 February – 2 March 2010. The Company has the option to redeem the bonds at the end of the fifth year, and recognizes the proceeds in subordinate capital in accordance with the Measures for Capital Adequacy Ratio Management of Commercial Banks.

38. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation.

39. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24 March 2010.

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