招商銀行
CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.
(a joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code：03968

Green Finance
Embracing the Future

Annual Report 2009

Embracing the Future

Green Finance

CONTENTS

Important Notice

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

The 54th meeting of the Seventh Session of the Board of Directors of the Company was held at the CMB College, Shenzhen on 13 April 2010. The meeting was presided by Qin Xiao, Chairman of the Board. 16 out of 18 eligible Directors attended the meeting. Wei Jiafu (director) appointed Sun Yueying (director) and Fu Junyuan (both being directors) appointed Li Yinquan (director) as proxy to vote on their behalf respectively. 18 votes were valid. Eight supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law and the Articles of Association of the Company.

KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants have reviewed the 2009 financial report respectively in accordance with the PRC and international accounting standards, and issued standard auditing reports with unqualified opinions.

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

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

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

1.1 Company Profile

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

1.1.2 Legal Representative: Qin Xiao
Authorized Representatives: Ma Weihua, Li Hao
Secretary of the Board of Directors: Lan Qi
Joint Company Secretaries: Lan Qi, Seng Sze Ka Mee, Natalia (FCIS, FCS(PE), FHKIoD)
Qualified Accountant: Cheng Ting Nan (CPA, FCCA)
Securities Representative: Wu Jianbing

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

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

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

1.1.6 Share Listing:

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

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

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

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

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

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

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

1.2 Company Information

Founded in 1987 with its head office in Shenzhen, China, the Company mainly focuses on the Chinese market. As at 31 December 2009, the Company had 52 branches, 685 sub-branches (including outlets), 2 exclusive operation centers equivalent to a branch (a credit card center and a small enterprise credit center), 1 representative office, 1,760 self-service centers and over 1,700 off-bank self-service machines and one wholly-owned subsidiary, CMB Financial Leasing Co., Ltd. in 65 cities of China.; two wholly-owned subsidiaries in Hong Kong, namely, Wing Lung Bank Limited ("WLB") and CMB International Capital Corporation, Ltd., and a branch in Hong Kong; a branch and a representative office in New York, the United States; a representative office in London. The efficiently operated outlets of the Company are primarily located in China's more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium-sized cities in other regions. The Company has maintained business relationship with 1,676 overseas financial institutions in 96 countries and regions.

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

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

Principal activities of the Company:

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

1.3 Awards and honors received in 2009

In 2009, the Company has received many domestic and international awards and honors for its outstanding business performance, management capability and corporate culture. These include:

In the "Result Release on the Survey of Preferred Brand Names of Chinese Multimillionaires" held by *Chinese Hurun Report*, the Company overwhelmingly won two awards, namely, "The Most Preferred RMB Wealth Management Bank" and "The Most Preferred Credit Card Issuer" for multimillionaires, respectively for five consecutive years.

The Company was awarded the "Best Private Bank in China" in the selection of "The Best Private Bank and Wealth Management" organized by *Euromoney*, for its good reputation in the banking sector and outstanding performance on high-end customers wealth management.

In the selection of the "2009 Excellence in Retail Financial Services Awards" organized by *The Asian Banker*, President Ma Weihua was the only banker in the Asia-Pacific region to receive the title of the "Retail Banker of the Year in Asia". The Company received "The Best Retail Bank in China" award for the third time and "The Best Joint Stock Retail Bank in China" award for five consecutive years.

On the Chart of Top 100 Global Brands released by the *Financial Times* in 2009, the Company ranked 81st in terms of brand value, the growth of which was the highest among all companies covered.

In the selection of best private bank organized by *Asia Money*, the Company was honoured "The Best Private Bank in China".

In the selection of "60 Brands in 60 Years" organized by CCTV, the Company was honoured one of the 60 Brands in 60 Years that changed the life of people.

On the Chart of the 200 Most Esteemed Enterprises in Asia in 2009 sponsored by *The Wall Street Journal Asia*, the Company ranked No. 1 among all the Chinese companies in terms of comprehensive appraisement. The Company also topped two sub-charts for Creativity and Quality respectively.

In the annual selection for the Risk Management Awards sponsored by *AsiaRisk*, the Company was honoured "the Best Risk Managing Bank (China Region) in 2009".

In the selection for "The Best Asian Companies in 2009" organized by *Finance Asia*, the Company won 4 prominent awards at one stroke: "The Best Management", "The Best Corporate Governance" and "The Best Investor Relations" for the Company and "The Best CEO in Asia" for President Ma Weihua.

On the ranking of competitiveness of Asian Banks in 2009 organized by the *21st Century Economic Report*, President Ma Weihua was honoured "The Most Creative Banker in Asia" and the Company was awarded "The Best Wealth Management Bank in Asia".

On the Chart of "2009 Financial Value by the *First Financial"* organized by *The First Financial Daily*, President Ma Weihua was honoured "Banker of the Year" and his book "What The Wall Street Tells" was dubbed the "Financial Book of the Year" and the Company was honoured the "Joint Stock Commercial Bank of the Year".

In the selection for the "Awards for the Best Corporate Governance Information Disclosure in 2009" held by the HKICPA, the Company's 2008 Annual Report was awarded the Gold Price.

At the Award Presentation Ceremony of the 8th China Corporate Governance Forum held by the Shanghai Stock Exchange and sponsored by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and the Organization for Economic Cooperation and Development (OECD), the Company was granted the "Award of Board of Directors 2009".

II Financial Highlights

2.1 Key financial data

Operating Results

	2009	2008	Changes
	(in millions of RMB)		+/(-)%
Net operating income[1]	**51,917**	55,655	(6.72)
Profit before tax	**22,384**	26,759	(16.35)
Net profit attributable to the Bank's shareholders	**18,235**	21,077	(13.48)

Per Share[2]

	2009	2008	Changes
	(RMB)		+/(-)%
Basic earnings attributable to the Bank's shareholders	**0.95**	1.10	(13.64)
Diluted earnings attributable to the Bank's shareholders	**0.95**	1.10	(13.64)
Year-end net assets attributable to the Bank's shareholders	**4.85**	5.41	(10.35)

Financial Indicators

	As at 31 December 2009	As at 31 December 2008	Changes
	(in millions of RMB)		+/(-)%
Total assets	**2,067,941**	1,571,797	31.57
of which: total loans and advances to customers	**1,185,822**	874,362	35.62
Total liabilities	**1,975,158**	1,492,016	32.38
of which: total deposits from customers	**1,608,146**	1,250,648	28.59
Total equity attributable to the Bank's shareholders	**92,783**	79,515	16.69

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

(2) During the reporting period, the Company implemented the Profit Appropriations Scheme for 2008, pursuant to which a bonus issue of 3 bonus shares for every 10 shares held together with a distribution of RMB1.00 (tax included) in cash for every 10 share held was carried out. The net assets per share attributable to the Bank's shareholders as at 31 December 2009 was based on the total share capital as at the end of the reporting period after bonus issue. And the earnings per share for each reporting period was also based on the number of shares after the implementation of Profit Appropriations Scheme for 2008.

2.2 Financial Ratios

	2009	2008	Changes
	(%)		+/(-)
Profitability ratios			
Return on average assets (after tax) attributable to the Bank's shareholders	**1.00**	1.46	(0.46)
Return on average equity (after tax) attributable to the Bank's shareholders	**21.17**	28.58	(7.41)
Net interest spread	**2.15**	3.24	(1.09)
Net interest margin	**2.23**	3.42	(1.19)
As percentage of operating income			
– Net interest income	**77.75**	84.24	(6.49)
– Net non-interest income	**22.25**	15.76	6.49
Cost-to-income ratio (excluding business tax)	**44.45**	36.55	7.90

	As at 31 December 2009	As at 31 December 2008	Changes
	(%)		+/(-)
Capital adequacy ratios			
Core capital adequacy ratio	**6.63**	6.56	0.07
Capital adequacy ratio	**10.45**	11.34	(0.89)
Total equity to total assets	**4.49**	5.08	(0.59)
Asset quality ratios			
Non-performing loan ratio	**0.82**	1.11	(0.29)
Allowances for impairment losses to non-performing loans	**246.66**	223.29	23.37
Allowances for impairment losses to total loans and advances to customers	**2.02**	2.47	(0.45)

2.3 Five-year Financial Summary

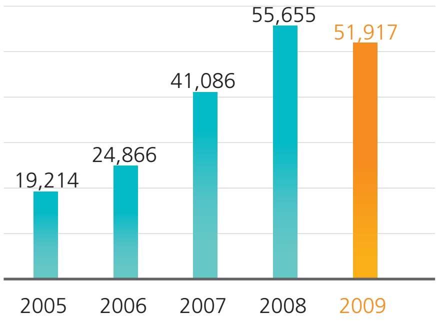
	2009	2008	2007	2006	2005
Results for the year			(in millions of RMB)		
Net operating income	**51,917**	55,655	41,086	24,866	19,214
Operating expenses	**26,207**	23,636	16,738	11,091	9,115
Impairment losses on assets	**2,971**	5,154	3,305	3,691	3,637
Profit before tax	**22,384**	26,759	21,043	10,084	6,462
Net profit attributable to the Bank's shareholders	**18,235**	21,077	15,243	6,794	3,749
Per share			(RMB)		
Dividend	**0.21**	0.40	0.28	0.12	0.08
Basic earnings[1]	**0.95**	1.10	0.80	0.36	0.20
Diluted earnings[1]	**0.95**	1.10	0.80	0.36	0.19
Year-end net assets value attributable to the Bank's shareholders	**4.85**	5.41	4.62	3.75	2.51
Year end			(in millions of RMB)		
Share capital	**19,119**	14,707	14,705	14,703	10,374
Total shareholders' equity	**92,783**	79,781	67,984	55,160	25,998
Total liabilities	**1,975,158**	1,492,016	1,242,568	878,942	708,615
Deposits from customers	**1,608,146**	1,250,648	943,534	773,757	634,404
Total assets	**2,067,941**	1,571,797	1,310,964	934,102	734,613
Net loans and advances to customers[2]	**1,161,817**	852,754	654,417	549,420	458,675
Key financial ratios			(%)		
Return on average assets (after tax) attributable to the Bank's shareholders	**1.00**	1.46	1.36	0.81	0.57
Return on average equity (after tax) attributable to the Bank's shareholders	**21.17**	28.58	24.76	16.74	15.64
Cost-to-income ratio	**44.45**	36.55	34.94	38.28	41.10
Non-performing loan ratio	**0.82**	1.11	1.54	2.12	2.58
Core capital adequacy ratio[3]	**6.63**	6.56	8.78	9.58	5.57
Capital adequacy ratio[3]	**10.45**	11.34	10.40	11.39	9.01

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

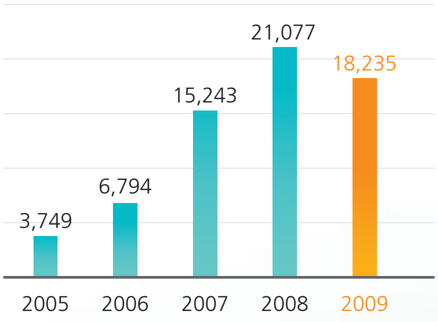
(2) Net loans and advances to customers represent gross loans and advances to customers less allowances for loan impairment losses.

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

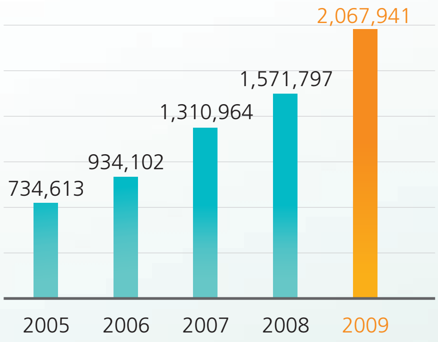
Net operating income
in millions of RMB



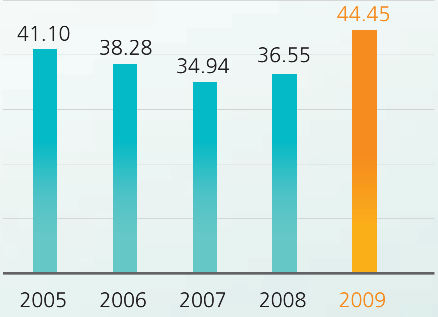
Net profit attributable to the Bank's shareholders
in millions of RMB



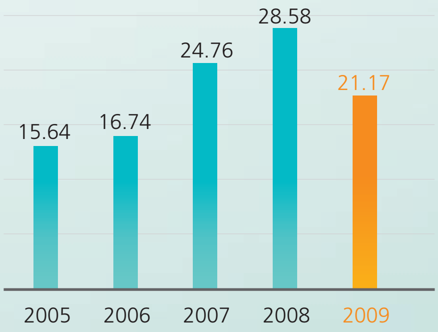
Total assets
in millions of RMB



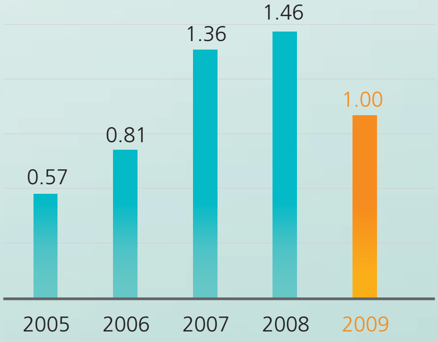
Cost-to-income ratio
percentage



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



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



Qin Xiao Chairman

Chairman’s Statement

The global economy and financial market remained turbulent and volatile in 2009. In order to deal with the global financial crisis, the governments of the crisis-stricken countries have taken every possible measure to revive their economies and resume financial order. The Chinese Government has also resorted to a moderately loose monetary policy and proactive fiscal policy and implemented a full-range basket of plans to cope with the international financial crisis, which has continuously brought vitality to China’s economy.

III Chairman's Statement

Qin Xiao Chairman

The global economy and financial market remained turbulent and volatile in 2009. In order to deal with the global financial crisis, the governments of the crisis-stricken countries have taken every possible measure to revive their economies and resume financial order. The Chinese Government has also resorted to a moderately loose monetary policy and proactive fiscal policy and implemented a full-range basket of plans to cope with the international financial crisis, which has continuously brought vitality to China's economy.

Under the shocks of the financial crisis and amid a complex and ever-changing external environment, we have gone through a difficult year, facing ruthless challenges of soaring operating risks and obviously narrowed interest margin. Under such a tough situation, we remained determined and opted to take the challenges. We have taken every possible measure to overcome the adverse impact from outside and continued to move on with the strategic transformation, optimized the customer composition and assets/liabilities structure, and directed our resources into businesses requiring low capital consumption such as retail banking, SME corporate loans and fee-based income, so as to enhance our pricing capability for loans and the proportion of net fee-based income. Thanks to the concerted efforts of the whole bank, the strategic adjustments of our businesses and the task to optimize assets/liabilities structure are coming to fruition, with the quality of our assets constantly improving, corporate earnings rebounding from the low level during the year and the consolidated results turning out better than expected.

In 2009, the Group realized a net profit attributable to shareholders of RMB18.235 billion, representing a decrease of 13.48% as compared to the previous year, a ROAA attributable to shareholders of 1.00%, representing a decrease of 0.46 percentage point as compared to the previous year, and a ROAE attributable to shareholders of 21.17%, representing a decrease of 7.41 percentage points as compared to the previous year. The Group recorded a non-performing loan ratio of 0.82%, representing a decrease of 0.29 percentage point as compared to the previous year, a non-performing loan coverage ratio of 246.66%, representing an increase of 23.37 percentage points as compared to the previous year, and a capital adequacy ratio of 10.45%, representing a decrease of 0.89 percentage point as compared to the previous year.

In 2009, CMB continued to steadily push on with its internationalization process. One of the progresses we made was that the integration of WLB was quicker than expected, with the resulting synergies gradually evident, which was to pave the way for fullfilling our strategic targets of "Foundation Laid in 1 Year, Results Evident in 3 Years and Success achieved in 5 Years". WLB realized a consolidated net profit after tax of HK$884 million in 2009, compared to the loss of HK$816 million in 2008. Another progress was that we further explored the European and American market by setting up the London Representative Office, which followed the inauguration of our New York Branch. Thus we have get to the initial stage of building a network of international operation which serves to expand our customer base and support sustainable growth of the Bank.

Along with the ongoing strategic transformation and optimization of assets/liabilities structure, we have been strengthening management of credit risk, market risk, liquidity risk and operating risk, strengthening and improving our internal control, in order to further facilitate the steady operation and sustainable development of the Bank.

In order to further reduce capital consumption, we continued to enhance capital management which requires thorough examination on capital employment, risks and returns in business operation. We have taken full advantage of such management tools as comprehensive budget management, assets and liabilities management and FTP to improve our capital management and resources allocation system centered around economic capital. We have also established an emergency handling mechanism for capital adequacy ratio and expanded channels for capital replenishment. In response to regulatory requirements and funding requirements for our business development, the Board of Directors and the general meeting of shareholders approved a fund-raising proposal to raise not more than RMB22 billion by way of rights issue of A shares and H shares, which has already been successfully completed. The proceeds from rights issue timely replenished capital for a sustainable development, which is conducive to CMB's sustainable growth, the value growth of the Company and the interests of the vast majority of our shareholders.

In 2009, we continued to improve our corporate governance. The Board and special committees under it fullfilled their duties effectively, and reviewed every major resolution and provided strong backup for the management team thus ensuring healthy business development. The Board of Directors convened 17 meetings while the special committees convened 24 meetings during the year. All the directors have fully dedicated themselves to the Bank and contributed professional expertise in a number of issues critical to the sustainable development and corporate governance of CMB, including mid-term capital planning, implementation of the rules under the Basel II Accord, branch network construction, consolidated management, internal controls as well as risk management. We saw an efficient execution of the Board's duties and enhancement of objective and well-informed decision-making process. As recognition of the achievement of our Board, it won the Board of Directors Award for 2009 in the Annual Awards for Board of Directors organized by Shanghai Stock Exchange and co-sponsored by SASAC under the State Council and the OECD.

As a highly responsible enterprise, the Bank has been actively involved in social charity work and always seeks to fulfill its social responsibilities by various means. For the year 2009, we carried on our poverty relief programs in Wuding County and Yongren County in Yunnan Province which have lasted for over 10 consecutive years. Staff of the Bank donated a total of RMB5.75 million to the two counties. Near 1,000 primary students were given paired subsidies and more than RMB4 million in small sum loans were granted during the year. To mitigate the financing difficulties of SMEs, the Bank stepped up the support for SMEs which was reflected by the fact that nearly half of the corporate loan balance is granted to SMEs. These initiatives helped to backup employment of the society in general and were well recognized by regulatory authorities. The Bank was accredited by the CBRC as an "Active Supporter of SMEs". In light of the worsening global environment, the Bank reserved no effort in developing green financing whereby strict limits are placed in offering loans to high pollution and high energy consumption industries as well as industries with excess capacity. At the same time, the Bank fully supported those energy saving projects and renewable energy projects stipulated as key projects by the government. During the year, the Bank participated in the consultancy of CDM and low interest rate loan arrangements for AFD energy efficiency projects and renewable energy projects, and also such new business as green private equity funds.

Currently, the global economy and financial markets have entered the "post-crisis" era. As the repercussion of the global financial crisis lingers on, the global financial systems are still very fragile and the foundation for economic recovery is still unsound. In a domestic perspective, the expanded consumer demand is not firmly based, social investments need to be expedited and the momentum of internal growth is weak. There has been a general surge of asset prices and inflationary expectation is rising. It is of high concern to strike a balance among fostering growth, rebalancing the economy and managing inflationary expectations. On the other hand, challenges of the external environment is becoming more acute as demonstrated by more stringent regulation in the domestic financial regulation, more sophisticated and ever changing demand from customers, the rapid emerge of direct financing, more severe competition as well as the pressure to address the requirements imposed upon us by regulatory authorities, shareholders, customers, other banks and our staff. We know well that in order to excel, we must change the ways of conducting business in time and shift to a centralized management structure so that we can develop our unique attributes and stand out among our peers. By leveraging on the above, we expect to lift operating efficiency and ultimately maximize shareholders' value.

A photo of Qin Xiao (Chairman) and Ma Weihua (President) taken at the opening ceremony of London Branch.

Accordingly, the Bank proposed a "Second Transformation" by putting forward a set of goals that can be summarized as: curtailing capital consumption, uplifting loan pricing, controlling financial cost, increasing high net-worth customers and strengthening risk control. Thanks to our persistent efforts in pushing forward and deepening the adjustment of our operation strategy, thereby causing the transformation of our operations towards concentration of its intrinsic values and streamlining its operations, ensuring the persisting growth of profits, which in turn will further strengthen the Bank's core competitiveness. Going forward in 2010, we will identify opportunities in the shadow of the financial crisis and take innovative actions for change in a hope to achieve another year of success and generate higher return for our shareholders.

Ma Weihua President

President's Statement

In 2009, despite the ongoing financial turbulence and the complicated economic environment, China Merchants Bank managed to fulfill the requirements of the regulatory authorities and overcame various unfavorable factors. All the tasks set for the year were accomplished and a positive development trend in general was maintained.

As at the end of 2009, the total assets of the Group reached RMB2,067.941 billion, up by 31.57% from the beginning of the year; the total deposits amounted to RMB1,608.146 billion, increasing by 28.59% from the beginning of the year; the total loans and advances to customers amounted to RMB1,185.822 billion, increasing by 35.62% from the beginning of the year; the balance of non-performing loans amounted to RMB9.732 billion, increasing by RMB55 million from the beginning of the year; the non-performing loan ratio was 0.82%, dropping by 0.29 percentage point from the beginning of the year; non-performing loan coverage ratio was 246.66%, increasing by 23.37 percentage points from the beginning of the year; the capital adequacy ratio was 10.45%. The net profit attributable to shareholders of the Bank amounted to RMB18.235 billion.

IV President's Statement

Ma Weihua President

In 2009, despite the ongoing financial turbulence and complicated economic environment, China Merchants Bank managed to fulfill the requirements of the regulatory authorities and overcame various unfavorable factors. All of the tasks set for the year were accomplished and a positive development trend in general was maintained.

As at the end of 2009, the total assets of the Group reached RMB2,067.941 billion, up by 31.57% from the beginning of the year; the total deposits amounted to RMB1,608.146 billion, increasing by 28.59% from the beginning of the year; the total loans and advances to customers amounted to RMB1,185.822 billion, increasing by 35.62% from the beginning of the year; the balance of non-performing loans amounted to RMB9.732 billion, increasing by RMB55 million from the beginning of the year; the non-performing loan ratio was 0.82%, dropping by 0.29 percentage point from the beginning of the year; non-performing loan coverage ratio was 246.66%, increasing by 23.37 percentage points from the beginning of the year; the capital adequacy ratio was 10.45%. The net profit attributable to shareholders of the Bank amounted to RMB18.235 billion.

In 2009, the Group made further progress in business strategy adjustment. Our total retail loans accounted for 32.20% of the gross loans and advances to customers, representing an increase of 5.59 percentage points from the beginning of the year; total savings deposit accounted for 39.74% of the total deposits from customers, representing a decrease of 2.23 percentage points from the beginning of the year. The net non-interest income accounted for 22.25% of the net operating income, increasing by 6.49 percentage points from the previous year.

In 2009, the Bank actively expanded its market share through formulating and enforcing new marketing guidelines, practicing differentiated pricing for deposits from other financial institutions and introducing integrated trade finance products, creating new structured financing models by cooperating with trust companies and using other financial institutions as channels for asset transfer so as to better manage the loan book. We aggressively promoted diversification of personal loan products with more efforts in exploring high net-worth customers and attained rapid development of retail business. Thanks to the SME corporate financing divisions newly established at seven branches, actively reforming of professional operation and accelerated construction of SME credit network, the SME business maintained a healthy growth. As a result of increased efforts in promoting corporate wealth management, business credit cards, cash management, treasury business, assets custody, investment banking and corporate annuity, there were many satisfactory developments in the new corporate business.

The launching ceremony of a joint venture project between CMB's small enterprise credit center and Shanghai Federation of Industry and Commerce, celebrating the establishment of the Shanghai regional headquarter of our small enterprise credit center

In 2009, the Bank took effective actions to prevent risks, reinforced management of loan classification, provisioning and early-warning and monitoring, conducted risk investigations with a focus on local government financing, project loans, bill financing, credit card cash-out and real estate loans. Interest rate risk limits were set for bank accounts, the treasury operation mechanism was refined and rational adjustment was made to the investment and financing structure. As a result, we succeeded in enhancing the management of market risks. We also accelerated the construction of operational risk management system with emphasis on preventing operational risks in accounting; further expanded audit scope, realized on-line compliance management system, carried out risk investigation into all cases and specific cases, and implemented the Basel II Second Pillar capital management and liquidity and interest rate risk management, ensuring a safe and sound operation of the Bank.

In 2009, the Bank continued to improve its internal management and cost management and control, build a comprehensive budget management system covering all operating organs and subsidiaries and enhance the monitoring, analysis and timely adjustment of the budget implementation, in a bid to restrain the increase in funding cost, labor cost and project-based cost. The Bank also pressed on with the reform of IT management and formulated the interim development strategy planning and enhanced system planning and development and coordination. The Bank further improved workflow at counters and advocate the experience from the first "Six Sigma" project. Furthermore, the Bank formulated job service standards, strengthened the monitoring of customer complaint management as well as outlet service provision and pushed on with comprehensive service management.

In 2009, the Bank steadily advanced its internationalization and integration process with remarkable achievements made in the consolidation of Wing Lung Bank. Synergy effects were seen earlier than expected so that Wing Lung Bank recorded profits as expected. Our New York branch gave much effort to develop clearing and settlement, inter-bank lending and borrowing and other businesses, selectively participated in the local loan syndication market and we saw a steady improvement in the management of risks, internal control and compliance. On the other hand, our London representative office was opened during the year and significant progress was made in the acquisition of equity interests in CIGNA&CMC and Tibet Trust Company as well as in the preparation for the launch of futures settlement business.

In 2009, the Bank's overall brand image continued to be widely recognized by various sectors of the society. We ranked first among the global banks in terms of return on net assets by Boston Consulting Company, named as the bank with the highest price-to-book value ratio and the bank with the highest growth in brand value in the world by the *Financial Times* of the U.K.. In addition, the Bank also was listed as a world class brand of China and ranked 24th among the "Global 600 Most Prestigious Enterprises "released by *Forbes* and No.1 among "The Most Esteemed Enterprises in China" by the *Wall Street Journal Asia*.

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

Looking forward into 2010, we will follow the guideline of "Responding to crises, innovating for changes, making the second transformation for new accomplishments", with a view to identify the post-crisis challenges and opportunities, further the adjustments to business strategies so as to gear the business to intensive development. By strengthening confidence, being down-to-earth, innovative and industrious, we will create an even brighter future for China Merchants Bank.

The 2009 spring-greeting party held jointly by China Merchants Bank and Wing Lung Bank

Shi Jiliang
Chairman of the Board of Supervisors

We are here just for you

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

5.1 Analysis of general operating status

In 2009, confronted with a tough operating environment caused by the deterioration of financial crisis, the slowdown of economic growth, and substantially narrowed net interest margin, the Group correctly understood movements in macroeconomic condition and strived to eliminate negative influences of external environment over business operations. Thanks to these efforts, the operation remained stable as a whole, which was reflected in the following aspects:

The declining rate of profit was slowed down significantly, resulting in recovery of our profitability. In 2009, net profit attributable to shareholders of the Bank amounted to RMB18.235 billion, representing a decrease of 13.48% as compared with that in the previous year and a significant improvement from the year-on-year decrease of 37.62% recorded in the first half of 2009. Among which, net interest income was RMB40.364 billion, representing a decrease of RMB6.521 billion or 13.91% as compared with that in the previous year, while net non-interest income was RMB11.553 billion, representing an increase of RMB2.783 billion or 31.73% as compared with that in the previous year. ROAA and ROAE attributable to the shareholders of the Bank were 1.00% and 21.17% respectively, representing an increase from 0.93% and 20.19% in the first half of 2009. Main factors for the improvement in profit decline and the recovery in profitability include: first, although interest spread was narrowed down under the moderately loose monetary policies in 2009, the decline in net interest income was relieved by constant improvement in the assets and liabilities structure and pricing capabilities; second, capitalizing on market opportunities, the Group strived to expand its business scale, achieving a stable growth in non-interest income.

The assets and liabilities scale expanded rapidly. As at the end of 2009, the Group's total assets amounted to RMB2,067.941 billion, representing an increase of RMB496.144 billion, or 31.57%, as compared with the beginning of the year. Loans and advances amounted to RMB1,185.822 billion, representing an increase of RMB311.460 billion, or 35.62%, as compared with the beginning of the year. Deposits from customers amounted to RMB1,608.146 billion, representing an increase of RMB357.498 billion, or 28.59%, as compared with the beginning of the year.

The quality of our assets remained at high level. As at the end of 2009, the Group had non-performing loans of RMB9.732 billion, an increase of RMB55 million as compared with the beginning of the year. The non-performing loan ratio was 0.82%, a decrease of 0.29 percentage point as compared with the beginning of the year. The non-performing loan coverage ratio (allowance for impairment loss on loans/non-performing loans) was 246.66%, an increase of 23.37 percentage points as compared with the beginning of the year.

5.2 Analysis of Income Statement

5.2.1 Financial highlights

	For the year ended 31 December	
	2009	2008
	(In millions of RMB)	
Net interest income	**40,364**	46,885
Net fee and commission income	**7,993**	7,744
Other net income	**3,132**	917
Insurance operating income	**359**	98
Operating expenses	**(26,207)**	(23,636)
Provision for insurance claims	**(355)**	(106)
Share of profits in associates	**42**	37
Share of profits in joint ventures	**27**	(26)
Impairment losses on assets	**(2,971)**	(5,154)
Profit before tax	**22,384**	26,759
Income tax	**(4,149)**	(5,813)
Net profit	**18,235**	20,946
Net profit attributable to the Bank's shareholders	**18,235**	21,077

In 2009, the Group realized a profit before tax of RMB22.384 billion, a decrease of 16.35% as compared with the corresponding period of the previous year. Effective income tax rate was 18.54%, a decrease of 3.18 percentage points as compared with 2008.

The following table sets out the impact on the profit before tax of the Group for 2009 by changes in major income/loss items.

Changes in profit before tax

	(In millions of RMB)
Profit before tax for 2008	**26,759**
Changes in 2009	
Net interest income	(6,521)
Net fee and commission income	249
Other net income	2,215
Insurance operating income	261
Operating expenses	(2,571)
Share of profits in associates	5
Share of profits in joint ventures	53
Impairment losses on assets	2,183
Provision for insurance claims	(249)
Profit before tax for 2009	**22,384**

5.2.2 Net operating income

In 2009, the net operating income of the Group was RMB51.917 billion, a decrease of 6.72% from the previous year. It was primarily due to the decline in net interest income. Net interest income accounted for 77.75%, a decrease of 6.49 percentage points from the previous year; net fee and commission income accounted for 15.40%, an increase of 1.49 percentage points from the previous year.

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

	For the year ended 31 December				
	2009	2008	2007 (%)	2006	2005
Net interest income	**77.75**	84.24	82.51	86.50	86.61
Net fee and commission income	**15.40**	13.91	15.67	10.11	8.16
Other net income	**6.03**	1.65	1.72	3.39	5.23
Insurance operating income	**0.69**	0.18	–	–	–
Share of profits in associates and joint ventures	**0.13**	0.02	0.10	–	–
Net operating income	**100.00**	100.00	100.00	100.00	100.00

5.2.3 Net interest income

In 2009, the net interest income of the Group was RMB40.364 billion, a decrease of 13.91% from the previous year. It was primarily attributable to the decrease in average yield of total interest-earning assets.

The following tables set out, for the period indicated, the average balances of interest bearing assets and liabilities, interest income/interest expense and average yield/cost ratio of the Group. The average balances of interest-earning assets and interest-bearing liabilities are the average of daily balances.

	2009			2008		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
	(In millions of RMB, excluding percentages)					
Interest-earning assets						
Loans and advances	**1,176,589**	**52,022**	**4.42**	829,814	56,097	6.76
Bond investments	**275,702**	**8,552**	**3.10**	225,792	8,820	3.91
Balances with central bank	**196,619**	**2,957**	**1.50**	169,684	2,827	1.67
Placements with banks and other financial institutions	**157,333**	**2,307**	**1.47**	147,367	4,891	3.32
Total interest-earning assets	**1,806,243**	**65,838**	**3.65**	1,372,657	72,635	5.29

	2009			2008		
	Average balance	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
	(In millions of RMB, excluding percentages)					
Interest-bearing liabilities						
Deposits from customers	**1,407,731**	**19,614**	**1.39**	982,312	19,924	2.03
Placements from banks and other financial institutions	**250,885**	**3,928**	**1.57**	250,423	4,825	1.93
Issued debts	**39,376**	**1,932**	**4.91**	24,448	1,001	4.09
Total interest-bearing liabilities	**1,697,992**	**25,474**	**1.50**	1,257,183	25,750	2.05
Net interest income		**40,364**			46,885	
Net interest spread[(1)]			**2.15**			3.24
Net interest margin[(2)]			**2.23**			3.42

(1) Net interest spread is the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.

(2) Net interest margin is net interest income divided by the average balance of total interest-earning assets.

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

	2009 compared with 2008		
	Increase/(decrease) due to		**Net increase/ (decrease)**
	Volume	**Interest rate**	
	(In millions of RMB)		
Assets			
Loans and advances	**15,332**	**(19,407)**	**(4,075)**
Bond investments	**1,548**	**(1,816)**	**(268)**
Balances with central bank	**405**	**(275)**	**130**
Placements with banks and other financial institutions	**146**	**(2,730)**	**(2,584)**
Changes in interest income	**17,431**	**(24,228)**	**(6,797)**
Liabilities			
Deposits from customers	**5,927**	**(6,237)**	**(310)**
Placements from banks and other financial institutions	**7**	**(904)**	**(897)**
Issued debts	**733**	**198**	**931**
Changes in interest expense	**6,667**	**(6,943)**	**(276)**
Changes in net interest income	**10,764**	**(17,285)**	**(6,521)**

5.2.4 Interest income

In 2009, the interest income of the Group was RMB65.838 billion, a decrease of 9.36% as compared to the previous year. Interest income from loans and advances still accounted for the majority of the interest income of the Group.

Interest income from loans and advances

In 2009, the interest income from loans and advances of the Group was RMB52.022 billion, a decrease of 7.26% as compared to the previous year. The effect of the interest rate cut by central bank in 2009 was fully reflected, and the market interest rate was at a relatively lower level against the loose monetary policy. The above factors, coupled with the impact of prime interest rate policy of retail loans, the average yield of loans and advances of the Group was 4.42%, a decrease of 2.34 percentage points as compared to the previous year.

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

	2009			2008		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
	(In millions of RMB, excluding percentages)					
Corporate loans	**593,484**	**30,826**	**5.19**	485,628	33,283	6.85
Retail loans	**281,578**	**14,287**	**5.07**	191,279	13,493	7.05
Discounted bills	**253,720**	**5,613**	**2.21**	142,968	8,947	6.26
Loans and advances	**1,128,782**	**50,726**	**4.49**	819,875	55,723	6.80

Interest income from debt investments

In 2009, the interest income from bond investments of the Group decreased by 3.04% as compared to the previous year, and the average yield of bond investments was 3.10%, a decrease of 0.81 percentage point as compared to the previous year, less affected by the interest rate cut.

Interest income from placements with banks and other financial institutions

In 2009, the interest income from placements with banks and other financial institutions of the Group decreased by 52.83% compared to the previous year. It was primarily attributable to a decrease of 1.85 percentage point in the average yield for placements with banks and other financial institutions compared to the previous year due to the corresponding significant rate cut of inter-bank funds, under the environment of abundant liquidity and lower interest rate.

5.2.5 Interest expense

In 2009, the interest expense of the Group was RMB25.474 billion, a decrease of 1.07% as compared to the previous year. It was primarily attributable to the decreasing market interest rate and growing deposits scale.

Interest expense on deposits from customers

Deposits from customers are the major funding source of the Group. In 2009, the Group's interest expense on deposits from customers decreased by 1.56% compared to the previous year. Average balance of deposits from customers increased by 43.31%, and average cost decreased by 0.64 percentage point, as compared to the previous year, thus leading to a relatively smaller change in interest expense on deposits from customers as compared to the previous year.

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

	2009			2008		
	Average balance	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
	(In millions of RMB, excluding percentages)					
Deposits from corporate customers						
Demand	**410,300**	**2,552**	**0.62**	336,229	3,250	0.97
Time	**410,888**	**8,822**	**2.15**	285,325	9,489	3.33
Subtotal	**821,188**	**11,374**	**1.39**	621,554	12,739	2.05
Deposits from retail customers						
Demand	**262,927**	**1,335**	**0.51**	185,885	1,213	0.65
Time	**245,441**	**6,409**	**2.61**	156,846	5,604	3.57
Subtotal	**508,368**	**7,744**	**1.52**	342,731	6,817	1.99
Total deposits from customers	**1,329,556**	**19,118**	**1.44**	964,285	19,556	2.03

Interest expense on placements from banks and other financial institutions

In 2009, the interest expense on placements from banks and other financial institutions of the Group decreased by 18.59% compared to the previous year. It was primarily attributable to a decrease of 0.36 percentage point in average cost for placements from banks and other financial institutions as compared to the previous year due to lower market interest rate.

Interest expense on issued debts

In 2009, the interest expense on issued debts increased by 93.01% compared to the previous year, primarily due to the new issuance of subordinated debts in the second half of 2008 and certificates of deposit in 2009 by the Group, resulting in an increase of 61.06% in the average balance of issued debts compared to the previous year.

5.2.6 Net interest spread and net interest margin

In 2009, the net interest spread of the Group was 2.15%, down by 109 basis points compared to the previous year, primarily because the average interest margin of the interest-earning assets of the Group decreased from 5.29% in 2008 to 3.65% in 2009, down by 164 basis points, and the average cost of the interest-bearing liabilities decreased from 2.05% in 2008 to 1.50% in 2009, down by 55 basis points.

In 2009, the net interest margin of the Group was 2.23%, down by 119 basis points compared to the previous year. Such decrease was due to, on one hand, the interest rate cut in 2008 resulting in narrower interest spread and lower net interest margin; and on the other hand, the average balance of the interest-earning assets as a result of the increase in loans and investments.

5.2.7 Net fee and commission income

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

	2009	2008
	(in millions of RMB)	
Fee and commission income	**9,153**	8,776
Bank card fees	**2,599**	2,673
Settlement and clearance fees	**1,077**	982
Agency service fees	**2,477**	1,628
Commissions from credit commitment and loan business	**723**	610
Commissions from custody and other trustee businesses	**1,541**	1,895
Others	**736**	988
Fee and commission expense	**(1,160)**	(1,032)
Net fee and commission income	**7,993**	7,744

In 2009, net fee and commission income increased by 3.22% compared to the previous year. Such increase was primarily attributable to increase in agency service fees, settlement and clearance fees and commissions from credit commitment and loan business. These include:

Agency service fees increased by 52.15% compared to the previous year. It was primarily due to the increase of income from fund agency services, insurance and debt underwriting business;

Commission income from credit commitment and loan business increased by 18.52% compared to the previous year, which was primarily due to the increase in income from bills acceptances;

Settlement and clearance fees increased by 9.67% compared to the previous year. It was mainly attributable to the gradual expansion of our business scale and customer base, and the increased income from retail account management fees and increased income from online business;

Commissions from custody and other trustee businesses decreased by 18.68% compared to the previous year, which was mainly due to the impact of the adjusted structure of wealth management products.

5.2.8 Other net income

In 2009, other net income of the Group increased by 241.55% compared to the previous year. Other net income accounted for 6.03% of the net operating income.

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

	2009	2008
	(in millions of RMB)	
Net trading profit/(loss) arising from:		
– Foreign exchange	**1,252**	1,153
– Securities, derivatives and other trading activities	**66**	(96)
Net gains on financial instruments designated at fair value through profit or loss	**611**	2
Net profit/(loss) on disposal of available-for-sale financial assets	**722**	(494)
Distributions from investment in funds	**10**	3
Net gains on disposal of fixed assets	**2**	25
Rental income	**149**	77
Others	**320**	247
Total other net income	**3,132**	917

In 2009, the significant increase in other net income of the Group was mainly due to, among others, the following factors:

Firstly, in light of lower interest rate, the market upturn and the increase in total financial assets designated at fair value through profit or loss, net trading profit and net gains or losses on financial assets designated at fair value through profit or loss increased by RMB261 million and RMB609 million respectively as compared to the previous year.

Secondly, the Group seized the opportunity of low interest rate to sell the available-for-sale financial assets and reaped gains on spread, resulting in an increase of RMB1.216 billion in net profit on disposal of available-for-sale financial assets compared to the previous year.

5.2.9 Operating expenses

In 2009, operating expenses of the Group were RMB26.207 billion, representing an increase of 10.88% compared to the previous year, and the cost-to-income ratio was 44.45%, an increase of 7.90 percentage points compared to the previous year.

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

	2009	2008
	(in millions of RMB)	
Staff costs	**12,686**	11,163
Business tax and surcharges	**3,129**	3,296
Depreciation of fixed assets	**2,194**	2,004
Rental expenses	**1,917**	1,453
Other general and administrative expenses	**6,281**	5,720
Total operating expenses	**26,207**	23,636

Staff costs constituted the majority of the operating expenses of the Group. In 2009, staff costs increased by 13.64% compared to the previous year, primarily due to increased headcounts along with business expansion. Rental expenses increased by 31.93%, primarily due to opening of new branches and offices of the Group. Other general and administrative expenses increased by 9.81%, which were in line with the overall business development of the Group.

5.2.10 Impairment losses on assets

In 2009, impairment losses on assets was RMB2.971 billion, a decrease of 42.36% compared to the previous year. The following table sets forth, for the periods indicated, the principal components of impairment losses on assets of the Group.

	2009	2008
	(in millions of RMB)	
Assets impairment charged/(released) on		
– Loans and advances	**3,073**	3,703
– Placements with banks	**–**	(56)
– Financial assets purchased under reverse repo agreements	**–**	(218)
– Investments	**(83)**	861
– Goodwill	**–**	579
– Investments in associates	**1**	–
– Other assets	**(20)**	285
Total impairment losses on assets	**2,971**	5,154

Impairment losses on loans constituted the largest part of impairment losses on assets. In 2009, impairment losses on loans was RMB3.073 billion, representing a decrease of 17.01% compared to the previous year. For details of specific changes and reasons for impairment losses on loans, please refer to the paragraph headed "Loan quality analysis" of this section.

In 2009, improvement of overall situation in financial market helped restoring the investment value of some debts for which the impairment loss had been provided previously, and credit exposure to the issuers was partially mitigated, therefore allowances for impairment loss previously recognized on debts investments was appropriately reversed, with a total released amount of RMB83 million.

Impairment losses on other assets consisted primarily of impairment losses on repossessed assets. In 2009, the provision for impairment losses on other assets of the Group was RMB20 million.

5.3 Analysis of balance sheet

5.3.1 Assets

As at 31 December 2009, the total assets of the Group were RMB2,067.941 billion, representing an increase of 31.57% as compared to the end of 2008. The increase in total assets was primarily due to the increase in loans and advances to customers, investment, cash and balances and placements with banks.

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

	31 December 2009		31 December 2008	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, except percentages)			
Total loans and advances to customers	**1,185,822**	**57.34**	874,362	55.63
Allowance for impairment losses on loans and advances to customers	**(24,005)**	**(1.16)**	(21,608)	(1.37)
Net loans and advances to customers	**1,161,817**	**56.18**	852,754	54.26
Investments	**377,072**	**18.23**	310,446	19.75
Investment in associates and joint ventures	**466**	**0.02**	402	0.03
Balances with the central bank	**208,554**	**10.09**	174,673	11.11
Cash and balances with banks and other financial institutions	**56,544**	**2.73**	37,016	2.35
Placement with banks and other financial institutions	**221,194**	**10.70**	156,378	9.95
Fixed assets	**16,008**	**0.78**	15,062	0.96
Intangible assets	**2,477**	**0.12**	2,381	0.15
Deferred tax assets	**2,786**	**0.13**	2,521	0.16
Goodwill	**9,598**	**0.46**	9,598	0.61
Other assets	**11,425**	**0.56**	10,566	0.67
Total assets	**2,067,941**	**100.00**	1,571,797	100.00

5.3.1.1 *Loans and advances to customers*

As at 31 December 2009, total loans and advances to customers of the Group amounted to RMB1,185.822 billion, representing an increase of 35.62% as compared to the end of previous year; the percentage of total loans and advances to customers to the total assets was 57.34%, representing an increase of 1.71 percentage point as compared to the end of the previous year.

Distribution of loans to customers by product type

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

	As at 31 December			
	2009		2008	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, except percentages)			
Corporate loans	**701,396**	**59.15**	545,961	62.44
Discounted bills	**102,549**	**8.65**	95,766	10.95
Retail loans	**381,877**	**32.20**	232,635	26.61
Total loans and advances to customers	**1,185,822**	**100.00**	874,362	100.00

Corporate loans

As at 31 December 2009, the Group's total corporate loans amounted to RMB701.396 billion, representing an increase of RMB155.435 billion as compared to the beginning of the year, accounting for 59.15% of its total loans and advances to customers, a decrease of 3.29 percentage points as compared to the beginning of the year. In 2009, the Group consistently followed the nation's macroeconomic control policy, enhanced the management of credit approval policy and rationalized the size and speed of granting corporate loans, thus optimizing the corporate loan structure and balancing risk and return at the same time.

Discounted bills

As at 31 December 2009, discounted bills amounted to RMB102.549 billion, representing an increase of 7.08% as compared to the end of previous year. Over the years, as the loss rate of discounted bills was relatively low and the capital consumption was relatively small, the Group kept striving to expand this business. Confronted with the complicated and variable economic and financial environment in 2009, the Group achieved a sound result in its bill business under a low-price but competitive market environment, through active credit approval policy and scale control, effective utilization of the entire capital of the Bank, and diversified measures such as policy promotion, intensified operation as well as two-way market making.

Retail loans

With constant strengthening of development of retail loans business in recent years, the percentage of retail loans business in the portfolio of loans and advances kept increasing. As at 31 December 2009, retail loans amounted to RMB381.877 billion, representing an increase of 64.15% as compared to the end of the previous year, accounting for 32.20% of its total loans and advances, representing an increase of 5.59 percentage points as compared to the end of the previous year. The increase was primarily due to rapid growth of residential mortgage loans and continued development of the credit card business. In 2009, the Group adhered to the development strategy of retail loans business, and intensified the development of residential mortgage loans business. A rapid growth of residential mortgage loans was accordingly realized, representing an increase of 72.64% as compared to the end of the previous year; credit card receivables increased by 25.91% as compared to last year.

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

	As at 31 December			
	2009		2008	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, except percentages)			
Residential mortgage loans	**273,659**	**71.66**	158,512	68.14
Credit card receivables	**40,314**	**10.56**	32,019	13.76
Others[(1)]	**67,904**	**17.78**	42,104	18.10
Total retail loans	**381,877**	**100.00**	232,635	100.00

Note: (1) Consists primarily of retail loans secured by monetary assets, automobile loans, operational loans, home improvement loans, education loans and general consumption loans.

5.3.1.2 Investments

Analysis on investments in foreign currency debts

As at 31 December 2009, the Group had a balance of investments in foreign currency debts of US$6.786 billion, among which US$3.115 billion was held by the Company and US$3.671 billion was held by WLB and its subsidiaries (hereinafter referred to as "WL Group").

The investments in foreign currency bonds held by the Company are categorized as follows: 45.31% of the foreign currency bonds are issued by the PRC government and Chinese companies; 4.04% by abroad governments and institutions; 44.19% by overseas banks and 6.46% by overseas companies. As at the end of December 2009, the Company has made an allowance for impairment of US$96 million for its investments in foreign currency debts, with an evaluated unrealized profit of US$21 million. As at the end of December 2009, the Company did not have any securities products in relation to subprime mortgage loans or government bonds issued by Greece and other countries in debt crisis.

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

Investments

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

The following table sets forth the components of the investment portfolio of the Group:

	31 December 2009		31 December 2008	
	Amount	**Percentage in total (%)**	Amount	Percentage in total (%)
	(in millions of RMB, except percentages)			
Financial assets at fair value through profit or loss	**16,855**	**4.47**	17,699	5.70
Available-for-sale investments	**244,916**	**64.95**	206,959	66.66
Held-to-maturity securities	**80,201**	**21.27**	70,373	22.67
Investment receivables	**35,100**	**9.31**	15,415	4.97
Total investments	**377,072**	**100.00**	310,446	100.00

Financial assets at fair value through profit or loss

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

	31 December 2009	31 December 2008
	(in millions of RMB)	
PRC government bonds	**755**	660
PBOC bills	**1,319**	2,873
Debts issued by policy banks	**790**	1,749
Debts issued by commercial banks and other financial institutions	**4,696**	3,372
Others[1]	**9,295**	9,045
Total financial assets at fair value through profit or loss	**16,855**	17,699

Note: (1) Consists of other bonds, equity investments, investments in funds and financial derivatives, etc.

Available-for-sale investments

As at 31 December 2009, the available-for-sale financial assets of the Group increased by RMB37.957 billion or 18.34%, representing 64.95% of the investments of the Group, which was the largest investment category of the Group. The increase in this category was mainly due to the need to manage assets and liabilities.

In 2009, the active fiscal policy and moderately loose monetary policy adopted by the government helped keep the macro-economy stable and resilient. However, the anticipated economic recovery and moderately loose monetary policy gave rise to a high inflation expectation, which caused the yield curve for bonds to go steeper in the first half of 2009, whereas under the impact of monetary policy fine-tuning, the rebound of short and medium term interest rates led the yield curve leveling off in the second half of 2009. The Company timely and accurately grasped such expectation and the market fluctuating rhythm. By making use of the substantially increased deposits and continuously improved capital strength, the Company enlarged the scale of its investments on one hand and reinforced the adjustment to the structure of its bond portfolio on the other hand, among which:

(1) As China adopted a moderately loose monetary policy, issuance of PBOC bonds was significantly reduced, interest rate went lower and a large number of bonds reached maturity, all these resulted in a sharp decline in total volume of such bonds held by the Company as compared to the end of previous year, representing a decrease of 52.42%.

(2) As China adopted a proactive fiscal policy, issuance of PRC government bonds was significantly increased. Due to the sound liquidity of PRC government bonds and investment in PRC government bonds enjoying preferential tax treatment, the Company appropriately raised its investment in the PRC government bonds.

(3) The Company's holding in debts issued by policy banks, commercial banks and other financial institutions increased considerably. This was mainly because debts issued by policy banks and China Development Bank were in ample supply, which carried zero risk weight, enjoyed sovereign credit ratings and had greater choices in terms of maturity structure and interest rate type as compared to the supply of other debts, therefore facilitating the Company to improve its management of debt portfolio. As a result, the Company increased substantially its holding in such debts.

(4) In 2009, guided by the macroeconomic policy of "maintaining growth", credit market in China continued to develop rapidly. Adapting to the changes in market structure and in order to get higher investment returns, the Group, while maintaining strict risk control and strong capital constraint, increased investments in debt instruments issued by non-financial enterprises.

The following table sets forth the components of the available-for-sale investment portfolio of the Company.

	As at 31 December 2009	As at 31 December 2008
	(in millions of RMB)	
PRC government bonds	**18,199**	9,734
Debts issued by the PBOC	**25,058**	52,661
Debts issued by policy banks	**47,167**	34,762
Debts issued by commercial banks and other financial institutions	**101,892**	58,264
Other debts	**51,404**	50,550
Equity investments	**1,178**	964
Fund investments	**18**	24
Total available-for-sale investments	**244,916**	206,959

Held-to-maturity securities

As at 31 December 2009, the net amount of held-to-maturity securities of the Group increased by RMB9.828 billion or 13.97% as compared to the end of previous year. Held-to-maturity investments are primarily long-term fixed rate debts with higher coupon rates and floating rate debts of which the prices are adjusted in line with statutory benchmark interest rate. Held-to-maturity investments are held for the Company's strategic purpose on a long-term basis. In 2009, the Company grasped the market interest rate movement and acquired certain medium and long term debts into its held-to-maturity investments category at the time the yield curve turned steeper; while anticipating that the interest rate cut cycle came to an end and the interest rate rise cycle was imminent, the Company also increased investment in floating rate debts to strengthen risk prevention capability of its debt portfolio. The increase in held-to-maturity investments was mainly attributable to increase in PRC government bonds and debts issued by China Development Bank, while investment in other types of debts maintained at constant level or reduced. As the role of bond investment become more important in relation to assets and liabilities allocation, the Company will continue to increase such investment to a suitable level.

The following table sets forth the components of held-to-maturity securities of the Group.

	As at 31 December 2009	As at 31 December 2008
	(in millions of RMB)	
PRC government bonds	**22,760**	15,548
Debts issued by the PBOC	**12,210**	13,588
Debts issued by policy banks	**4,360**	8,420
Debts issued by commercial banks and other financial institutions	**38,738**	31,113
Other debts	**2,317**	1,919
Total amount of held-to-maturity securities	**80,385**	70,588
Less: allowance for impairment losses	**(184)**	(215)
Net amount of held-to-maturity securities	**80,201**	70,373

Investment receivables

Investment receivables are unlisted PRC evidence Treasury Bonds and other bonds held by the Group, which do not have open market value in China or overseas. As at 31 December 2009, the Group's balance of investment receivables amounted to RMB35.100 billion, representing an increase of RMB19.685 billion as compared to the end of 2008.

Carrying value and market value

All financial assets classified as trading financial assets and designated at fair value through profit or loss and available-for-sale financial assets were stated at market value or at fair value. Due to the lack of a mature market for the investment receivables in the Group's investment portfolio and the absence of open market price in China and overseas, the Group has not made any estimation of their market value or fair value.

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

	As at 31 December 2009		At as 31 December 2008	
	Carrying Value	Market/ Fair Value	Carrying Value	Market/ Fair Value
	(in millions of RMB)			
Held-to-maturity listed investment	72,217	75,302	66,726	68,831

Investment concentration

The following table sets forth, as at 31 December 2009, our investment with carrying value exceeding 10% of our shareholders' equity.

	As at 31 December 2009			
	Carrying value	Percentage to total investment (%)	Percentage to total shareholders' equity (%)	Market/ fair value
	(In millions of RMB, excluding percentages)			
The PBOC	55,476	14.70	59.79	55,727
The Ministry of Finance	47,314	12.55	50.99	47,593
China Development Bank	109,003	28.91	117.48	109,096
The Export-Import Bank of China	24,165	6.41	26.05	24,207
Agricultural Development Bank of China	28,152	7.47	30.34	28,155
Total	264,110	70.04	284.65	264,778

5.3.1.3 Goodwill

On 15 January 2009, the Group completed the acquisition of 100% equity interest of WLB. As at the end of 2009, the Group had balance of provision for impairment losses on goodwill of RMB579 million and carrying value of goodwill of RMB9.598 billion.

5.3.2 Liabilities

As at 31 December 2009, the total liabilities of the Group amounted to RMB1,975.158 billion, an increase of 32.38% compared to the previous year end. Total deposits from customers amounted to RMB1,608.146 billion, an increase of 28.59% compared to the previous year end, representing 81.42% of the total liabilities of the Group, and was the major source of funding of the Group. The increase in liabilities was primarily due to a rapid growth in deposits from customers.

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

	As at 31 December 2009		As at 31 December 2008	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Deposits from customers	**1,608,146**	**81.42**	1,250,648	83.82
Deposits from banks and other financial institutions	**186,201**	**9.43**	115,792	7.76
Placements from banks and other financial institutions	**78,918**	**4.00**	50,124	3.36
Certificates of deposit issued	**4,462**	**0.23**	1,840	0.12
Convertible bonds issued	**–**	**–**	2	0.00
Subordinated debts issued	**31,271**	**1.58**	33,440	2.24
Other debts issued	**4,998**	**0.25**	4,996	0.34
Other liabilities	**61,162**	**3.09**	35,174	2.36
Total liabilities	**1,975,158**	**100.00**	1,492,016	100.00

Deposits from customers

The Group provides demand and time deposit products to corporate and retail customers. The following table sets forth, as at the dates indicated, the deposits from customers of the Group by product type and customer type.

	As at 31 December 2009		As at 31 December 2008	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Deposits from corporate customers				
Demand	**520,734**	**32.38**	373,222	29.84
Time	**448,391**	**27.88**	352,499	28.19
Subtotal	**969,125**	**60.26**	725,721	58.03
Deposits from retail customers				
Demand	**359,783**	**22.37**	268,220	21.45
Time	**279,238**	**17.37**	256,707	20.52
Subtotal	**639,021**	**39.74**	524,927	41.97
Total deposits from customers	**1,608,146**	**100.00**	1,250,648	100.00

The Group has been consistently focusing on expanding deposit business. Deposits from customers of the Group maintained robust growth as a result of the rapid economic growth in the PRC and the increased disposable income of the public. As at 31 December 2009, deposits from customers of the Group amounted to RMB1,608.146 billion, representing an increase of 28.59% as compared to the end of last year.

In 2009, the retail customer deposits started flowing to the stock market as a result of the reviving domestic stock market and resumption of initial public offerings. As at the end of 2009, the percentage of retail deposits to total deposits from customers of the Group was 39.74%, representing an decrease of 2.23 percentage points as compared to the end of 2008.

In 2009, there was a decrease in the percentage of time deposits to total deposits from customers of the Group. As at the end of 2009, the percentage of time deposits to total deposits from customers of the Group was 45.25%, representing a decrease of 3.46 percentage points as compared to the end of 2008. Among the figures, the proportion of corporate time deposits accounted for 46.27% of the corporate deposits, representing a decrease of 2.30 percentage points as compared to the end of 2008, and the proportion of retail time deposits accounted for 43.70% of the retail deposits, representing a decrease of 5.20 percentage points as compared to the end of 2008.

5.3.3 Shareholders' equity

	As at 31 December 2009	As at 31 December 2008
	(in millions of RMB)	
Paid-up share capital	**19,119**	14,707
Capital reserve	**18,399**	18,823
Surplus reserve	**6,653**	4,612
Investment revaluation reserve	**(230)**	2,854
Regulatory general reserve	**14,976**	10,793
Foreign exchange translation reserve	**(22)**	(34)
Retained profits	**27,592**	19,836
Proposed profit appropriations	**6,296**	7,924
Total equity attributable to the Bank's shareholders	**92,783**	79,515
Minority interests	**–**	266
Total shareholders' equity	**92,783**	79,781

5.3.4 Market share of major products or services

According to the statistics published by the PBOC, in December 2009, the market share and ranking of the Bank among the 13 joint stock banks in Mainland China in terms of loans and deposits as at the end of the reporting period are as follows:

Items expressed in RMB	**Market share (%)**	**Ranking**
Total deposits	12.9	2
Total savings deposits	22.4	2
Total loans	13.3	2
Total personal consumption loans	23.6	1

Note: The 13 joint stock banks include: Bank of Communications, China Merchants Bank, China Citic Bank, Shanghai Pudong Development Bank, China Minsheng Bank, China Everbright Bank, Industrial Bank, Huaxia Bank, Guangdong Development Bank, Shenzhen Development Bank, Evergrowing Bank, China Zheshang Bank and Bohai Bank.

5.4 Loan quality analysis

In 2009, the Group took proactive actions to cope with the changes in the complex external economic and financial environment and steadily pushed forward with the business strategy and management transform under the guidelines of "Addressing Risks, Seizing Opportunities, Enhancing Management and Developing Scientifically", improving the risk control capability in every aspects. During the reporting period, the quality of our credit assets was in a sound situation as demonstrated by steady growth in scale, ongoing improvement in quality of borrowers, excellent collection rate and enhanced security against credit risk.

As at the end of 2009, total loans and advances to customers of the Group was RMB1,185.822 billion, representing an increase of 35.62% as compared to that at the end of last year; the non-performing loan ratio was 0.82%, representing a decrease of 0.29 percentage point as compared to that at the beginning of the year; whereas the non-performing loan allowance coverage ratio was 246.66%, representing an increase of 23.37 percentage points as compared to that at the beginning of the year.

The following table sets forth, as at the dates indicated, the 5-tier loan classification of the Group.

	As at 31 December 2009		As at 31 December 2008	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Normal	**1,161,971**	**97.99**	850,356	97.25
Special Mention	**14,119**	**1.19**	14,329	1.64
Substandard	**2,961**	**0.25**	2,751	0.31
Doubtful	**2,791**	**0.23**	3,023	0.35
Loss	**3,980**	**0.34**	3,903	0.45
Total loans and advances to customers	**1,185,822**	**100.00**	874,362	100.00
Total non-performing loans	**9,732**	**0.82**	9,677	1.11

The key analysis on the loan quality of the Company is set out in the following part of this section.

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

Under the 5-tier loan classification, the non-performing loans of the Company are classified into substandard, doubtful and loss.

	As at 31 December 2009		As at 31 December 2008	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Normal	**1,106,541**	**97.96**	810,312	97.21
Special Mention	**13,621**	**1.21**	13,737	1.65
Substandard	**2,689**	**0.24**	2,626	0.32
Doubtful	**2,692**	**0.24**	2,970	0.36
Loss	**3,980**	**0.35**	3,903	0.46
Total loans and advances to customers	**1,129,523**	**100.00**	833,548	100.00
Total non-performing loans	**9,361**	**0.83**	9,499	1.14

In 2009, the Company paid much attention to the potential risks during the period of economic slow down. Our measures to tackle the situation were all-rounded, including actions to refine internal systems and policies, optimize corporate management, enhance risk pre-warning mechanisms, implement risk quantification, improve system building, strengthen accountability and team building. As a result, credit risk management was enhanced and quality of assets continued to improve.

In 2009, the Company recorded a decline in both the total amount of non-performing loans and nonperforming loan ratio. The year-end non-performing loan balances were RMB9.361 billion, decreased by RMB138 million, or 1.45%, as compared to that at the beginning of the year; whereas the non-performing loan ratio was 0.83%, a decrease of 0.31 percentage point as compared to that at the beginning of the year. Meanwhile, the special mention loan balances and percentage at the end of the year also fell as compared to those at the beginning of the year. The year-end special mention loan balances were RMB13.621 billion, down by RMB116 million as compared to that at the beginning of the year, whereas the special mention loan ratio was 1.21%, a decrease of 0.44 percentage point as compared to that at the beginning of the year.

To cope with the complex and ever-changing external business environment, the Company continued to monitor and prudently classify credit risk according to different dimensions including customer, industry, region and product. The Company was able to prevent and resolve risk in due course and effectively curbed the downward migration of special mention loans through risk pre-warning and review. Meanwhile, the Company accelerated the recovery and reduction of non-performing loans through numerous measures such as demand of timely payment and disposals, reinforced accountability of the non-performing loans, and increased write-offs for bad debts, thus the quality of asset was consistently maintained. The following table sets forth the loan migration of the Company for the past three years. The increase in both substandard loan migration ratio and doubtful loan migration ratio was mainly due to downward migration of individual substandard loans and doubtful corporate loans of relatively large amounts.

	2009	2008	2007
Normal loan migration ratio (%)	**2.86**	2.52	4.06
Special mention loan migration ratio (%)	**7.42**	11.89	15.99
Substandard loan migration ratio (%)	**36.84**	29.09	30.85
Doubtful loan migration ratio (%)	**24.20**	14.49	12.82

Notes: The migration ratios are calculated according to the requirements of the CBRC. Normal loan migration ratio = the balance of normal loans at the beginning of the period that is converted to the loans of the last four categories at the end of the period/the portion of normal loans at the beginning of the period that remains at the end of the period x 100%; special mention loan migration ratio = the balance of special mention loans at the beginning of the period that is converted to non-performing loans at the end of the period/the portion of special mention loans that remains at the end of the period x 100%; substandard loan migration ratio = the balance of substandard loans at the beginning of the period that is converted to doubtful and loss loans at the end of the period/the portion of substandard loans that remains at the end of the period x 100%; doubtful loan migration ratio = the balance of doubtful loans at the beginning of the period that is converted to loss loans at the end of the period/the portion of doubtful loans at the beginning of the period that remains at the end of the period x 100%.

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

	As at 31 December 2009				As at 31 December 2008			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio(1) (%)
	(in millions of RMB, excluding percentages)							
Corporate loans	**659,175**	**58.36**	**7,746**	**1.18**	518,440	62.20	8,144	1.57
Working capital loans	**435,578**	**38.56**	**6,191**	**1.42**	379,793	45.56	6,820	1.80
Fixed asset loans	**182,437**	**16.15**	**628**	**0.34**	112,827	13.54	498	0.44
Trade finance	**36,459**	**3.23**	**371**	**1.02**	16,676	2.00	349	2.09
Others(2)	**4,701**	**0.42**	**556**	**11.84**	9,144	1.10	477	5.22
Discounted bills(3)	**101,756**	**9.01**	**–**	**–**	95,766	11.49	–	–
Retail loans	**368,592**	**32.63**	**1,615**	**0.44**	219,342	26.31	1,355	0.62
Residential mortgage loans	**263,852**	**23.36**	**374**	**0.14**	148,452	17.81	396	0.27
Credit card receivables	**39,942**	**3.54**	**1,116**	**2.79**	31,604	3.79	874	2.77
Automobile loans	**5,514**	**0.49**	**20**	**0.37**	2,212	0.26	26	1.18
Others(4)	**59,284**	**5.24**	**105**	**0.18**	37,074	4.45	59	0.16
Total loans and advances to customers	**1,129,523**	**100.00**	**9,361**	**0.83**	833,548	100.00	9,499	1.14

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

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

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

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

In 2009, according to our strategies, the state's industry re-structuring policy and government stimulus plans, the Company strongly supported strategic areas such as retail loans, SME loans and trade finance, moderately raised its investment in infrastructure and medium to long-term loans. Consequently, the Company recorded growth in fixed asset loans, trade finance and residential mortgage loans of 61.70%, 118.63% and 77.74% respectively in 2009.

Meanwhile, adhering to the prudent management approach, the Company complied with the relevant requirements of "Three Rules and One Guideline" issued by the CBRC and strengthened the supervision of the whole credit extension process by focusing on various risk control areas including loan application, acceptance and reviewing, risk assessment and loan approval, making contracts, disbursement and payment, as well as follow-ups and monitoring. Delicacy management and process standardization was further enhanced. As at the end of 2009, the non-performing loans under corporate loans of the Company amounted to RMB7.746 billion, representing a decrease of RMB398 million as compared to those at the beginning of the year. The non-performing loan ratio of corporate loans was 1.18%, representing a decline of 0.39 percentage point as compared to that at the beginning of the year. Among which, both the amount and ratio of non-performing working capital loans fell, whilst those of the fixed asset loans and trade finance also declined.

The growing demand of residential mortgage loans was driven by the reviving China's domestic property market. In 2009, the retail residential mortgage loans of the Company recorded a fast growth of 77.74%, both the amount and ratio of non-performing loans declined as compared to those at the beginning of the year. The quality of residential mortgage loans continued to improve.

In 2009, the change in strategy for credit card business of the Company was successful and the results were encouraging. The Company risk control process was strengthened by means of tightening credit policy on low-end customers, optimising the mix of customer types. Personal examination and on-site visits were taken to prevent counterfeit applications and cash-out of credit card. Meanwhile, the Company enhanced risk monitoring of existing customers and implemented dynamic credit limit control. As at the end of 2009, the non-performing ratio of credit card was 2.79%, which remained almost the same as that at the beginning of the year.

5.4.3 Distribution of loans and non-performing loans by industry

	As at 31 December 2009				As at 31 December 2008			
	Loan balance	**Percentage of the total (%)**	**Non-performing loans**	**Non-performing loan ratio[1] (%)**	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio[1] (%)
	(in millions of RMB, excluding percentages)							
Corporate loans	**659,175**	**58.36**	**7,746**	**1.18**	518,440	62.20	8,144	1.57
Manufacturing	**187,532**	**16.60**	**2,866**	**1.53**	158,018	18.96	2,627	1.66
Transportation, storage and postal services	**107,574**	**9.52**	**529**	**0.49**	90,391	10.84	509	0.56
Wholesale and retail	**77,743**	**6.88**	**1,730**	**2.23**	56,897	6.83	1,855	3.26
Property development	**68,615**	**6.07**	**903**	**1.32**	47,233	5.67	1,193	2.53
Generation and supply of electric power, gas and water	**64,064**	**5.67**	**457**	**0.71**	62,063	7.45	616	0.99
Leasing and commercial services	**46,146**	**4.09**	**445**	**0.96**	27,982	3.36	445	1.59
Water, environment and public utilities management	**28,626**	**2.53**	**11**	**0.04**	9,163	1.10	10	0.11
Construction	**25,135**	**2.23**	**86**	**0.34**	22,774	2.73	44	0.19
Mining	**18,917**	**1.67**	**–**	**0.00**	14,127	1.69	–	–
Information transmission, computer service and software	**9,311**	**0.82**	**162**	**1.74**	6,223	0.75	230	3.69
Others[2]	**25,512**	**2.28**	**557**	**2.18**	23,569	2.82	615	2.61
Discounted bills	**101,756**	**9.01**	**–**	**–**	95,766	11.49	–	–
Retail loans	**368,592**	**32.63**	**1,615**	**0.44**	219,342	26.31	1,355	0.62
Residential mortgage loans	**263,852**	**23.36**	**374**	**0.14**	148,452	17.81	396	0.27
Credit card receivables	**39,942**	**3.54**	**1,116**	**2.79**	31,604	3.79	874	2.77
Others[3]	**64,798**	**5.74**	**126**	**0.19**	39,286	4.71	85	0.22
Total loans to customers	**1,129,523**	**100.00**	**9,361**	**0.83**	833,548	100.00	9,499	1.14

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

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

(3) Consists primarily of retail loans secured by monetary assets, automobile loans, operational loans, home improvement loans, education loans and general consumption loans.

In 2009, under the guidelines of "improving quality, refining industries distribution, applying differentiated polices to different sectors and optimizing loan structure", the Company continued to conduct in-depth researches on key industries and formulated credit policy guidelines for 25 key industries. Lending policies for government investment and financing platforms were also introduced, so that the policy governance applied to over 70% of corporate credit assets. Accordingly, credits were granted more effectively and channeled appropriately.

In 2009, the Company conducted a full credit review on the loans made to various high risk sectors and industries such as iron and steel, ship building, wind power generation equipment, cement, coal chemical, polycrystalline silicon, flat glass, government investment and financing platforms and real estate. Related credit policies were consistently revised and risk control measures were adopted timely, thus optimized the industry distribution and customer mix.

As at the end of 2009, the corporate loans were appropriately channeled to various industries and the quality of the assets remained satisfactory. As of the end of the year, the non-performing amount and the non-performing ratio of corporate loans recorded RMB7.746 billion and 1.18%, respectively, representing a decline as compared to that at the beginning of the year. Except that the NPL ratio for construction experienced a slight increase, the non-performing ratio for other industries declined by various extent as compared to the beginning of the year, reflecting a well-balanced improvement of both the industry distribution and quality of loans.

In 2009, the property market revived following a series of government policy stimulus and adjustments. The Company kept close attention to the changes in the market environment and the policies governing the property market. With quality as top priority, the Company assessed the situation carefully and made prompt responses. The Company complied to the principle of "cautious in granting, loan structure optimization, submarket and differentiated treatment" to strictly control loan approvals for the property development purposes. The Company gave special support to national leading real estate developers, adequate support to regional key real estate developers and imposed proper restriction on small-and-medium sized real estate developers. The Company also supported development projects of ordinary residential commodity housing and imposed proper restriction on commercial property development. The Company supported the granting of residential mortgage loans to home buyers for self-occupation purpose while restricted those for investment purpose. The Company intensely regulated the criteria for credit approvals such as qualification, capital and provision of guarantees and pledges of and by the developers. The Company used close-end funding to minimize risks on individual projects. For personal residential mortgage loans, the Company also tightened its control on pre-approval investigation, ongoing credit review, professional examination, registration of collaterals, collection handling and monitoring. The Company strictly followed the regulatory requirements on mortgage for the second house, including requirements in down-payment and interest rates. On-site visits and inspections and signing contracts in the presence of all parties concerned were strictly practiced in order to prevent "fake mortgage" and "fake down-payment". As at the end of 2009, the percentage of corporate loans balances under property development of the Company to total loan balance was 6.07%, representing an increase of 0.4 percentage point as compared to that at the beginning of the year; whereas the non-performing loan ratio was 1.32%, representing a decline of 1.21 percentage point as compared to that at the beginning of the year.

5.4.4 Distribution of loans by region

	As at 31 December 2009		As at 31 December 2008	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Eastern China	**480,121**	**42.51**	356,013	42.71
Southern China and Central China	**306,335**	**27.12**	230,494	27.65
Northern China	**204,105**	**18.07**	147,035	17.64
Western China	**126,600**	**11.21**	93,323	11.20
Others	**12,362**	**1.09**	6,683	0.80
Total loans to customers	**1,129,523**	**100.00**	833,548	100.00

In 2009, regional credit structure tended to be stable. In the respect of regional credit policy, the Company took into account the features of regional economic growth and strongly supported the pillar industries and quality customers with stronger competitive strength in these regions in order to achieve a balanced and optimal regional credit structure.

5.4.5 Distribution of loans by the type of guarantees

	As at 31 December 2009		As at 31 December 2008	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Collateralized loans	**423,330**	**37.48**	263,336	31.59
Pledged loans	**73,011**	**6.46**	51,843	6.22
Guaranteed loans	**273,872**	**24.25**	200,950	24.11
Unsecured loans	**257,554**	**22.80**	221,653	26.59
Discounted bills	**101,756**	**9.01**	95,766	11.49
Total loans and advances to customers	**1,129,523**	**100.00**	833,548	100.00

While economic slow down added more potential risks to the market, the company took collaterals as a relatively important means to mitigate credit risk in 2009. By the end of 2009, The percentage of collateralised loans increased by 5.89 percentage points as compared to that at the end of the previous year whilst the unsecured loans declined by 3.79 percentage points as compared to that of the previous year.

5.4.6 Distribution of loans by customer type

In 2009, the structure of the corporate loans by customer type remained stable in general, whilst the loans to domestic enterprises decreased by 3 percentage points as compared to those at the beginning of the year.

	As at 31 December 2009		As at 31 December 2008	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
State-owned enterprises	**231,044**	**20.45**	197,905	23.74
Joint-stock enterprises	**68,780**	**6.09**	63,863	7.66
Other limited liability enterprises	**157,928**	**13.98**	100,421	12.05
Other domestic enterprises	**80,598**	**7.14**	60,083	7.21
Subtotal of domestic enterprises	**538,350**	**47.66**	422,272	50.66
Foreign-funded enterprises	**99,895**	**8.85**	89,485	10.74
Subtotal of enterprises operating in the Mainland	**638,245**	**56.51**	511,757	61.40
Enterprises operating outside the Mainland	**20,930**	**1.85**	6,683	0.80
Subtotal of corporate loans	**659,175**	**58.36**	518,440	62.20
Discounted bills	**101,756**	**9.01**	95,766	11.49
Retail loans	**368,592**	**32.63**	219,342	26.31
Total loans and advances to customers	**1,129,523**	**100.00**	833,548	100.00

The Company continued to pursue its development strategies to provide financial services to SMEs, and attached great importance to higher risks of SMEs' potential defaults as a result of the slowdown of economy. While observing the fundamental principles of "proactively exploring, boldly innovating, refined measures, controllable risks", the Company enhanced risk management and control of its SME financing business by implementing various initiatives such as optimizing organizational structure, scientifically establishing customer entry criteria and improving risk management tools. In 2009, the Company erected a parallel operation structure comprising customer managers and risk managers with a view to realize professional management of SME financing business by professional teams, through construction of systems and optimization of process. To minimize credit risks, the Company has selected valuable customers from the industrial chain and the logistic chain with a regional focus. In addition, the Company has enhanced its risk management and control over SME corporate loans through various measures such as integrated scoring card system, pricing mechanism, management of authorization and risks pre-warning system.

Pursuant to the classification standards for SMEs (Guo Tong Zi【2003】No.17) promulgated by the National Bureau of Statistics of China, as at the end of 2009, the balance of the Company's SME corporate loans within Mainland China amounted to RMB308.370 billion, an increase of RMB87.833 billion over that at the beginning of the year, accounting for 47.68% of the total corporate loans within Mainland China, an increase of 4.58 percentage points as compared with that at the beginning of the year. The non-performing ratio of SME corporate loans was 1.83%, a decrease of 0.84 percentage point as compared to that at the beginning of the year. The SME corporate loans within Mainland China mainly concentrated in Eastern China, Southern China and Southern & Central China where economic activities were comparatively more active. SME corporate loans in these areas accounted for approximately 78% of the total loans. Among them, approximately 37% were collateralized loans; approximately 48% were guaranteed loans. Nearly 70% of SME corporate loans were granted to manufacturing, wholesale and retail sectors, property development industry as well as transportation, storage and postal services.

5.4.7 Loans to the top ten individual customers

Top ten borrowers	Industry	Customer nature	Loan balance as at 31 December 2009	% of total net capital	% of total loans
			(in millions of RMB, excluding percentages)		
A	Transportation, storage and postal services	State-owned enterprise	6,170	5.70	0.55
B	Transportation, storage and postal services	Other domestic enterprise	4,160	3.84	0.37
C	Transportation, storage and postal services	Other limited liability enterprise	3,647	3.37	0.32
D	Generation and supply of electric power, gas and water	Foreign-invested enterprise	3,000	2.77	0.27
E	Transportation, storage and postal services	State-owned enterprise	2,938	2.71	0.26
F	Leasing and commercial services	State-owned enterprise	2,731	2.52	0.24
G	Property development	Enterprise operating outside the Mainland	2,421	2.24	0.21
H	Telecommunications, computer services and software	State-owned enterprise	2,073	1.92	0.18
I	Transportation, storage and postal services	Other domestic enterprise	2,050	1.89	0.18
J	Transportation, storage and postal services	State-owned enterprise	2,010	1.86	0.18
Total			**31,200**	**28.82**	**2.76**

As at 31 December 2009, the loan balances of the Company's largest single borrower amounted to RMB6.170 billion, representing 5.70% of the Company's net capital. This was in line with the regulatory requirement stipulated by relevant regulatory authorities where the loan balances to a single borrower shall not exceed 10% of the bank's net capital.

5.4.8 Distribution of loans by overdue term

	As at 31 December 2009		As at 31 December 2008	
	Amount	**Percentage of the total loans (%)**	Amount	Percentage of the total loans (%)
	(in millions of RMB, excluding percentages)			
Overdue within 3 months	**2,697**	**0.24**	5,248	0.63
Overdue more than 3 months but within 1 year	**2,021**	**0.18**	1,573	0.19
Overdue more than 1 year but within 3 years	**2,349**	**0.21**	2,115	0.25
Overdue more than 3 years	**3,905**	**0.34**	4,491	0.54
Total overdue loans	**10,972**	**0.97**	13,427	1.61
Total loans to customers	**1,129,523**	**100.00**	833,548	100.00

As the Company's capability of identifying credit risks and managing credit risks enhanced gradually, the overdue loans of the Company saw reduction in 2009, with its percentage to the total loans decreasing from 1.61% at the beginning of the year to 0.97% as at the end of this year. The percentage of overdue loan balances in each level all decreased as compared to those at the beginning of the year.

5.4.9 Restructured loans

	As at 31 December 2009		As at 31 December 2008	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, excluding percentages)			
Restructured loans	**1,474**	**0.13**	1,350	0.16
Of which: restructured loans overdue more than 90 days	**898**	**0.08**	1,007	0.12

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

The Company imposed strict and prudent control over restructuring of loans. As at the end of 2009, the percentage of the Company's restructured loans decreased by 0.03 percentage point as compared to that at the beginning of the year.

5.4.10 Repossessed assets and allowances for impairment losses

As at the end of 2009, the total repossessed assets of the Company amounted to RMB1,175 million, and after deduction of allowances for impairment losses of RMB1,091 million, the net repossessed assets amounted to RMB84 million.

5.4.11 Changes of allowances for impairment losses on loans

The Company adopted two methods of assessing impairment losses on loans at the balance sheet date: individual assessment and portfolio assessment. Loans which were considered individually significant were assessed individually for impairment. If there was any objective evidence indicating that a loan was impaired, the impairment losses amount would be measured as the difference between the carrying amount of the loan and its discounted value of estimated future cash flows recoverable through profit or loss of the current period. Loans which were considered individually insignificant and had not yet been identified for loans subject to individual assessment for impairment were grouped in a pool of loans with similar credit risk characteristics for the purpose of impairment testing. Based on the result of testing, the Company would determine allowances for impairment losses on loans assessed on a portfolio basis.

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

	2009	2008
	(in millions of RMB)	
As at 1 January	**21,442**	18,750
Charge for the year	**3,856**	5,358
Releases for the year	**(916)**	(1,699)
Unwinding of discount[1]	**(101)**	(108)
Recoveries of loans and advances previously written off	**151**	64
Write-offs	**(738)**	(667)
Transfers in/out	**12**	(88)
Foreign exchange rate movements	**1**	(168)
As at 31 December	**23,707**	21,442

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

In response to the financial crisis, the Company continued to adopt prudent and cautious measures to make provision for the impairment losses arising from the credit assets. As at the end of 2009, allowances for impairment losses on loans amounted to RMB23,707 million, representing an increase of RMB2,265 million from the beginning of the year. The non-performing loan allowances coverage ratio (total allowances for impairment losses on loans to customers/total non-performing loans) was 253.25%, representing an increase of 27.52 percentage points as compared with that at the beginning of the year. The increase of allowances for impairment losses on loans was primarily due to the augment of loan scale. At the same time, the decrease in the non-performing loans resulted in a higher non-performing loan allowances coverage.

5.5 Analysis of capital adequacy ratio

The Group calculated and disclosed its capital adequacy ratio according to the "Guideline of the Resolution on the Regulation Governing Capital Adequacy Ratio of Commercial Banks (CBRC Order【2007】No. 11)" issued by the CBRC in July 2007. As at 31 December 2009, the capital adequacy ratio and core capital adequacy ratio of the Group were 10.45% and 6.63% respectively, representing a decrease of 0.89 percentage point and an increase of 0.07 percentage point as compared with those at the end of the previous year respectively, while the capital adequacy ratio and core capital adequacy ratio of the Bank were 10.05% and 7.36% respectively, representing a decrease of 0.44 percentage point and an increase of 0.21 percentage point as compared with those at the end of the previous year respectively.

In 2009, the change in capital adequacy ratio was attributable to the following factors: (1) there was a rapid growth in all our businesses which brought about a faster increase in risk-weighted assets than capital increase, thus lowering the capital adequacy ratio; and (2) the strong profitability of the Bank improved our internal capital generation ability along with a rapid increase in risk-weighted assets, thus resulting in an improvement in the core capital adequacy ratio for the year.

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

	As at 31 December 2009	As at 31 December 2008
	(in millions of RMB)	
Core capital		
Paid-up ordinary share capital	**19,119**	14,707
Reserves	**69,154**	56,765
Total core capital	**88,273**	71,472
Supplementary capital		
General provisions for loans and advances	**16,057**	13,795
Term subordinated debts	**30,000**	30,074
Convertible bonds	**–**	2
Other supplementary capital	**–**	1,745
Total supplementary capital	**46,057**	45,616
Total capital base before deductions	**134,330**	117,088
Deductions:		
– Goodwill	**9,598**	9,598
– Investments in unconsolidated subsidiaries and other long-term investments	**1,168**	1,044
– Investments in commercial real estate	**2,166**	2,407
Total capital base after deductions	**121,398**	104,039
Risk-weighted assets	**1,161,776**	917,201
Core capital adequacy ratio	**6.63%**	6.56%
Capital adequacy ratio	**10.45%**	11.34%

5.6 Segment operating results

The following segment operating results are presented by business segments and geographical segments. Business segment information is more relevant to the business operations of the Group, and so the Group chooses business segment information as the primary reporting format of segment information.

The Group evaluated the results of business segments through the internal funds transfer pricing mechanism ("FTP"), and the business segments priced internal lendings and borrowings at the internal interest rate based on market interest rate, and the inter-segment interest incomes and expenses generated by the FTP system were offset when consolidating the operating results of the Group. Net interest income of the respective segments, including interest income from loans to other segments and interest expense for borrowings from other segments, reflected the profit or loss of funding allocation to the business segments through the FTP system. Cost allocation was based on the direct cost of related business segments and appropriation of management overheads.

Business segments

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

	2009					2008				
	Corporate banking	**Retail banking**	**Treasury business**	**Other Businesses**	**Total**	Corporate banking	Retail banking	Treasury business	Other Businesses	Total
	(in millions of RMB)					(in millions of RMB)				
External net interest income	**21,562**	**6,971**	**11,801**	**30**	**40,364**	24,249	6,528	16,104	4	46,885
Internal net interest income/ (expense)	**(121)**	**5,244**	**(5,141)**	**18**	**–**	752	5,862	(6,616)	2	–
Net interest income	**21,441**	**12,215**	**6,660**	**48**	**40,364**	25,001	12,390	9,488	6	46,885
Net fee and commission income	**2,831**	**4,780**	**(5)**	**206**	**7,812**	2,747	4,761	(1)	44	7,551
Other net income/(expense)	**975**	**528**	**1,369**	**186**	**3,058**	732	241	(203)	77	847
Operating income from insurance	**–**	**–**	**–**	**359**	**359**	–	–	–	98	98
Operating income	**25,247**	**17,523**	**8,024**	**799**	**51,593**	28,480	17,392	9,284	225	55,381
Operating expenses	**(12,539)**	**(15,327)**	**(1,017)**	**(667)**	**(29,550)**	(13,147)	(13,139)	(1,701)	(850)	(28,837)
Share of profits of associates and joint ventures	**–**	**–**	**–**	**69**	**69**	–	–	–	11	11
Profit before tax from the reporting segments	**12,708**	**2,196**	**7,007**	**201**	**22,112**	15,333	4,253	7,583	(614)	26,555
Other profits					**272**					204
Combined profits before tax					**22,384**					26,759

In 2009, the contributions made by each business segment to the profit before tax of the Company were: 56.77% from corporate banking, representing a decrease of 0.53 percentage point over the corresponding period of the previous year; 9.81% from retail banking, representing a decrease of 6.08 percentage points over the corresponding period of the previous year; and 31.30% from treasury business, representing an increase of 2.96 percentage points over the corresponding period of the previous year.

Geographical segments

The major outlets of the Company are located in relatively affluent regions and some large cities in other regions in China. The following table sets forth the segment results of the Company by geographical segments in the periods indicated.

	2009		2008	
	Revenue	**Percentage (%)**	Revenue	Percentage (%)
	(in millions of RMB, excluding percentages)			
Eastern China	**19,404**	**37.42**	20,257	36.40
Southern and Central China	**19,617**	**37.84**	23,070	41.46
Western China	**4,315**	**8.32**	4,907	8.82
Northern China	**5,797**	**11.18**	7,182	12.91
Overseas	**2,715**	**5.24**	228	0.41
Total	**51,848**	**100.00**	55,644	100.00

5.7 Other Information

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

(1) Letters of irrevocable guarantee and letters of credit: the balance of the letters of irrevocable guarantee and the letters of credit issued by the Company amounted to RMB117,787 million as at the end of the reporting period. The Company's obligation to advance will arise only in the event of a default by an applicant under guarantees and letters of credit, and only then the Company's profit would be negatively affected.

(2) Bills of acceptance: as at the end of the reporting period, the Company's balance of the bills of acceptance was RMB319,758 million. The Company's obligation to advance will arise only in the event of a default by an applicant for the bill of acceptance, and only then the Company's profit would be negatively affected.

5.7.2 Outstanding overdue debts

As at the end of the reporting period, the Company did not have any outstanding overdue debts.

5.8 Business operations

5.8.1 Retail Banking Segment

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

Retail loans

The Company provides retail customers with various loan products. The year 2009 saw a gradual recovery of the real estate market and a continuously increasing transaction volume across the country. Under such circumstances, while remaining focusing on the promotion of personal housing loans, the Company has been aggressively promoting the businesses of personal auto loans, personal business loans so as to accelerate the diversified expansion process. The annual growth of personal consumption loans hit 68.08%, ranking among the top in the sector with a market share increased to 6.15%, an increase of 0.71 percentage point as compared with the beginning of the year. We have also intensified our efforts in innovation of retail loan products and extended such innovation from housing loans to business loans and consumption loans, so as to create favourable conditions for continuously increasing the return on capital: introducing the innovative Business Loans for the small & medium enterprises and upgrading the Easy Circulation so as to enhance the market competitiveness of our personal business loans; fully upgrading the Easy Consumption so as to further enhance the financing and wealth management function of the personal consumption loans. While keeping optimization of personal loan processing workflows, concentrating the middle and back stage operational process for retail loans, reducing costs and enhancing efficiency, we have built a concentrated after-lending service platform and optimized the after-lending service process with the counter-replacement rate remarkably enhanced and the customer satisfaction further improved. We continued to improve our risk management mechanism to further enhance our risk management expertise, which resulted in significantly reduced non-performing retail loan ratios. In 2009, the Company was granted the 2009 Outstanding Retail Credit Facility Award by the Asian Banker. As at 31 December 2009, the total retail loans amounted to RMB368.592 billion, increasing by 68.04% as compared to that at the end of the previous year, of which the total amount of residential mortgage loans increased by 77.74% as compared to that at the end of the previous year.

Retail customer deposits

The retail deposit products of the Company mainly consist of demand deposit, time deposit and call deposit. Retail customer deposit provided substantial low-cost funding for the Company. As at 31 December 2009, total retail customer deposits amounted to RMB586,782 million, increasing by 23.03% from the end of the previous year. Total retail customer deposits accounted for 38.43% of total customer deposits, decreasing by 2.05 percentage points from the end of the previous year.

Retail non-interest income business

The Company has been keeping developing non-interest income business in recent years. Confronting the impact caused by global financial crisis in 2009, the Company successively captured opportunities arising from macro-economic adjustment and market development, and achieved steady growth of non-interest income in retail banking through strengthening customers' resources allocation and integrated wealth management as well as vigorously expanding wealth management services. In 2009, the non-interest income from retail banking was RMB5,866 million, increasing by RMB39 million or 0.67% as compared to that in the previous year. Amongst which, commission income from bank cards (including credit card) was RMB2,509 million, a decrease of 5.61% as compared to that in the previous year; income from fund agency services was RMB1,114 million, an increase of 65.28% as compared to that in the previous year; income from wealth management was RMB605 million, an decrease of 39.98% as compared to that in the previous year; and income from agency sale of insurance was RMB535 million, an increase of 51.13% as compared to that in the previous year.

In 2010, the Company will further realize its potential, continue to strengthen its efforts in developing fund agency business, expanding insurance business, accelerating brokerage wealth management business, banking wealth management business and foreign exchange business, continuously improving retail gold investment business, progressively promoting POS consumption by debit cards and speeding up the development of e-payment business and other measures, in order to promote the continuous and steady growth of the Company's retail non-interest income.

Bank card business

As at 31 December 2009, the Company had issued a cumulative total of 53.37 million All-in-one cards, including 4.30 million cards newly issued during the year. Total deposit balance of All-in-one cards was RMB469.19 billion, accounting for 79.96% of the total retail deposits, representing RMB8,791 average balance per card.

2009 is the first year for the overall transformation of our credit card business. The business operation model will be gradually transformed from "Rapid Expansion" featuring securing new customers to "Selective Development" which focuses more on balanced and diversified development of quality customers.

By the end of December 2009, the Company had issued 30.73 million credit cards, including 3.47 million cards newly issued during the year. The total number of cards in circulation was 17.28 million, the cumulative number of card holders was 11.60 million, the cumulative transaction volume via credit cards for the year was RMB300.8 billion, the average transaction volume per month of each card in circulation was RMB1,471, and the revolving credit line balance was RMB13.4 billion. The percentage of interest-earning balances decreased from 37.34% at the end of previous year to 33.50%.The percentage of the revolving accounts of credit cardholders was 22.67%. Interest income from credit cards amounted to RMB2,322 million, an increase of 25.31% as compared to that in the corresponding period of the previous year. Income from credit card non-interest business was RMB2,528 million, an increase of 11.07% as compared to that in the corresponding period of the previous year.

In 2010, the Company will continue to maintain an appropriate scale in its credit card business, and take in more customers and strengthen customer service to maximize the customers' value. We will gradually change our business model from focusing on traditional sources of profits to revenue diversification, establish active risk management system and continue to maintain stable asset quality. We will also build up a team of top talents to promote the sustainable development of credit card business.

Private banking business

Private banking of China Merchants Bank has set up a market analysts team, consisting of investment consultants and customer service managers. A complete customer service system has been established to provide the customers with a full range of wealth management services.

The Company's private banks present systematic and professional market research and analysis reports to customer service managers and private banking customers to facilitate their proper asset allocation in the changing financial market environment. The investment advisors and customer service managers give investment recommendation reports tailored for individual customers, and assist in the implementation of these recommendations and review them regularly. In 2009, the Company's private banks provided our customers with more personalized and customized consultation services. Meanwhile, such banks built up an open product platform and present a more complete range of products in a bid to improve the private banking products and value-added services. During the reporting period, the Company launched certain investment products such as private equity funds, real estate funds, open-end private equity funds, artifact investments and en primeur investments.

As at the end of the reporting period, the Company established private banking centres in 16 major cities across the country. The Company was awarded the honour of "The Best Private Bank in China" by *Euromoney*, "The Best Domestic Private Bank" by *Asia Money* and "The Best Private Bank in China" by *The Asset*. In March 2009, the Company issued "The Report on Chinese Private Wealth for 2009"jointly with Bain & Company, which is the first authoritative study on the high-end private wealth market of Mainland China based on the survey and study of a great number of samples and has filled the blank of a comprehensive study on the Chinese private wealth market both at home and abroad. By the end of December 2009, the total number of private banking customers of the Company grew by 39.18% as compared to that at the beginning of the year, while total assets of private banking customers under management of the Company grew by 39.67% as compared to that at the beginning of the year.

Customers

As at 31 December 2009, the total number of retail deposit accounts of the Company was 42.23 million, and the total deposit balance was RMB586,782 million, of which, the total number of Sunflower customers (high end customers, with more than RMB500,000 financial assets in the Company) was 553,000. Their total deposit balance was RMB252.4 billion. The balance of Sunflower customers' total assets under management of the Company amounted to RMB944.4 billion, an increase of 285.1 billion or 43.24% as compared to the end of the previous year, accounting for 67.00% of the balance of customers' total assets under management of the Company, up by 5.14 percentage points as compared to the end of last year.

Brands and marketing

With the sustained efforts of the Company in brand building for its products and services, the Company has been awarded "The Best Retail Bank in China" for three times and "The Best Joint Stock Retail Bank in China" for five consecutive years by *The Asian Banker magazine*. In the "Result Release on the Survey of Preferred Brand Names of Chinese Multimillionaires" held by Chinese Hurun Report in 2009, the Company was recognized as "The Most Preferred RMB Wealth Management Bank" and "The Most Preferred Credit Card Issuer" for China's richest for five consecutive years, and was awarded the honour of "Best Wealth Management Bank in Asia for 2009"during the Fourth 21st Century Annual Finance Summit of Asia.

In 2009, while continuously consolidating its brand advantages of "All-in-one Card", "All-in-one Net", "Sunflower Wealth Management" and China Merchants Bank credit card, the Company continued to refine the Sunflower Exclusive value-added services, actively commenced targeted marketing based on customer database, and progressively promoted the integration of sales and service processes, strengthened the promotion of retail banking business and products. The Company launched One Foundation Caring "All-in-one Card" jointly with One Foundation, and the financial product jointly with Executive Office of the 26th Summer Universiade in Shenzhen known as China Merchants Bank and Universiade "All-in-one Card". Major marketing campaigns such as "The Third Wealth Management Education Community Tour" were launched. Such efforts in brand building were not only effective in forging closer relations with our customers, but also helpful in developing our customer base and enhancing customer loyalty.

At present, the Company promotes its retail banking products primarily through its branches and sub-branches. In the meantime, the Company has established a multi-level marketing system in its branches to meet market changes. As at the end of December 2009, the Company had established and operated 47 branch-level wealth management centres based on existing Sunflower wealth management centres and Sunflower VIP rooms, which further improved its Diamond-class customer service system.

5.8.2 Corporate Banking

The Company provides corporate customers, financial institutions and government agencies with diversified quality banking products and services. As at 31 December 2009, the total corporate loans of the Company were RMB659,175 million, an increase of 27.15% over the previous year, accounting for 58.36% of the total customer loans; the balance of total discounted bills was RMB101,756 million, an increase of 6.25% over the previous year, accounting for 9.01% of the total customer loans; and total corporate customer deposits were RMB940,159 million, an increase of 34.06% over the previous year, accounting for 61.57% of total customer deposits.

Corporate loans

Corporate loan products of the Company include working capital loans, fixed asset loans, trade finance and other loans such as corporate mortgage loans. In 2009, the Company actively implemented a customer strategy that equally emphasized small, medium and large customers. The Company provided more support for quality industries such as railway, transportation, electricity, telecommunications, urban infrastructure, renewable energy, environmental protection and high-tech industries. The Company restricted loans to industries under macroeconomic control such as those "High pollution, high energy consumption and resources dependent" industries. These all resulted in further optimization in the industry structure of corporate loans.

In 2009, despite the complicated and changing economic conditions, the Company continued to emphasize the strategy of prioritizing SME businesses. The company strengthened its business management ability and resilience through actively implementing dynamic customer management, adjusting business types, reforming management organization for small-medium enterprises and setting up marketing channels. In 2009, the balance of the Company's SME corporate loans grew rapidly and its share of total loans also rose sharply. Pursuant to the classification standards for SMEs (Guo Tong Zi【2003】No.17) promulgated by the National Bureau of Statistics of China, the balance of the Company's SME corporate loans within Mainland China amounted to RMB308.370 billion, an increase of RMB87.833 billion over that at the beginning of the year, accounting for 47.68% of the total corporate loans within Mainland China, an increase of 4.58 percentage points as compared with that at the beginning of the year. To drive the development of SME business, the Company mainly strengthened the following measures:

Firstly, the Company continued to implement organizational construction and reform necessary for SME business development. First of all, the credit centre for small-sized enterprises has achieved rapid development and growth. On 18 June 2008, the Company established a credit centre for small-sized enterprises in Suzhou, which is directly subordinated to the Head Office and has commenced operation on 22 December. Its business extends over the entire country and specializes in serving small-sized enterprises by providing various kinds of financing facilities with credit limit below RMB10 million, including credit services, guarantees, secured loans and pledge loans. As at 31 December 2009, the credit centre had granted loans with a cumulative amount of RMB6.117 billion and had a loan balance of RMB5.512 billion. The average interest rate of our loans was about 20% above the benchmark interest rate, showing improved strength in business expansion and market pricing. As at 31 December 2009, the credit centre had 930 borrowers. Those customers are mainly located in Yangtze River Delta. Furthermore, the Company launched test-run of specialized service for SME on branch level. SME financing sections were established in seven pilot-testing branches to explore a specialized business model combining marketing management and risk approvals. Significant improvement in approval efficiency for the SME business was witnessed and the SME business of those branches was effectively promoted.

Secondly, the Company actively carried on product innovation and exerted more efforts on product management. First of all, through streamlining the product system of SME, the Company classified the key funding products into 5 business types: property collateral, movable assets pledge, receivables financing, guarantee and "1+N" financing. Moreover, the Company has developed new businesses, including loans secured by account receivables, financing backed by underwriting company, credit guarantee financing for domestic borrowers and quality guarantee for service of travel agencies. Through these new products, our market competitive advantage is strengthened.

Thirdly, the Company has improved its pricing ability for SME corporate loans. In developing SME business, the Company has attached great importance to pricing, as SME loans bear higher rates than the overall level of corporate loan rates. To further enhance its pricing ability, the Company strengthened sits professional service, widened the variety of loans, increased loan approval efficiency and shortened the procedures for granting loans. As a result, profitability of the SME corporate loans has been improved.

Fourthly, the Company strengthened risk management for the SME corporate loans. In 2009, responding to the complicated economic conditions, the Company took proactive actions to minimize risks originated from SME corporate loans. The Company strengthened the control over the credit risks associated with SMEs through improving the risk management tools and launching special risk inspections. At the same time, the Company actively adjusted the existing customer mix. Through capitalizing on customer ratings, imposing more stringent guarantee requirements, exercising prudent industry selection and adjusting size and structure, the bank-wide risk-resilience of SME loans was strengthened steadily. In 2009, the Company achieved its goal of having both the balance and ratio of non-performing loans decreased.

Syndicated Loans

In 2009, for the purpose of enhancing inter-bank cooperation and information sharing, and diversifying risks associated with large amount loans, the Company vigorously promoted syndicated loan business. As at the end of 2009, the balance of syndicated loans amounted to RMB44.208 billion, representing an increase of RMB23.342 billion or 111.87% as compared to the beginning of the year.

Green Finance

The Company persistently adhered to the philosophy of promoting green finance and assisting the construction of low-carbon economy. In 2009, the Company granted loans of RMB39.820 billion in aggregate to green credit area, representing an increase of 59.71% as compared to that in the previous year. Among which, RMB13.432 billion was granted to renewable energy, RMB3.701 billion to clean energy, and RMB22.687 billion to environment protection area.

While being active in promoting green credit, as a member of United Nations Environment Program Finance Initiative (UNEP FI), The Company also proactively carried out international cooperation, explored the development of green financial products and made full efforts in building itself into a green bank.

In 2009, based on green credit and project financing products, the Company proactively cooperated with international institutions, carried out research work on risk-sharing products. Meanwhile, the Company also devoted in new businesses such as advisory services on Clean Development Mechanism (CDM), low-interest loans to energy efficiency and renewable energy projects of French Development Agency, and green private equity funds, among others.

At the end of 2009, the Phase One of Sino-French Green Intermediate Credit Project, which was jointly sponsored by the Company and French Development Agency, was successfully concluded. Among the three on-lending banks, the Company was the first to complete withdrawal in aggregate of EUR20 million long-term low-interest on-lending funds. The on-lending projects covered sectors such as wind power, biomass power, industrial energy conservation and construction energy conservation, which strongly enhanced the development of green economy at places where the projects were carried out.

Discounted bills

Taking into consideration the combined factors of total loan amount, liquidity, yield and risks, the Company effectively drove the development of discounted bills operations in 2009. As at 31 December 2009, the balance of discounted bills loans was RMB101,756 million.

Corporate client deposits

The Company has high regard to enhancing the returns of corporate client deposits and strives to increase the percentage of low cost demand deposits to total corporate client deposits. With the expansion of innovative services such as online banking and cash management, higher quality marketing efforts have been made, which effectively facilitated the cooperation between the Bank and corporate clients. As a result, large amount of low cost demand deposits were obtained.

As at 31 December 2009, total corporate client deposits amounted to RMB940,159 million, representing an increase of RMB238,862 million or 34.06% as compared to those at the end of previous year. Specifically, demand deposits accounted for 54.43%, representing an increase of 2.02 percentage points as compared to those at the end of previous year, which is 8.86 percentage points higher than that of time deposits. The high proportion of demand deposits helped reducing interest expenses on deposits.

Non-interest income business

Under the guiding principles of restructuring the operating structure, the Company stepped up its efforts to maximize fee-based income while ensuring the growth of interest income. Under the adverse external conditions in 2009, the Company made great efforts in promoting the development of the innovative businesses including cash management, sale of corporate wealth management products, agency underwriting of debt financing instruments, asset custody, corporate annuity, financial advisory and business card etc. Meanwhile, the Company continued to maintain the growth of income from traditional businesses including domestic and international settlement, acceptance, guarantee and commitments in order to ensure the diversification of non-interest income sources. Despite the difficult external conditions in 2009, the non-interest net income of the Company still amounted to RMB3,913 million.

With regard to online corporate banking business, the number of customers increased rapidly to a total of 102,951, representing an increase of 28.24% over the corresponding period of the previous year. Among which, the "超級網銀 SUPER-BANK", the key product newly launched by the Company this year, has attracted 20,869 new customers for the year. The actual utilization ratio by such online corporate banking customers improved further, as the proportion of active transaction customers to total number of such customers grew steadily, and the number of core customers continued to increase. The substitution ratio of annualized debit transactions reached 44.30%, which outperforms its peers in China. The online corporate banking business has grown to a stage with independent profitability and sales volume. It can support the Company's overall development, identify and integrate customer resources and fully demonstrate the Company's advanced science and technology in online banking business.

As for cash management, there has been a remarkable increase in the comprehensive yield from our products, which contributed remarkably to the Company's efforts in developing and retaining basic customers, absorbing and expanding low-cost corporate settlement deposits, improving the utilization ratio and turnover ratio of banking facilities granted to customers and promoting the cross selling of other wholesale and retail products. The number of customers using cash management services reached 104,501. The average daily balance of proprietary corporate deposits from customers using cash management services amounted to RMB600 billion, while the average balance of corporate loans amounted to RMB400 billion. As at the end of December 2009, the number of customers using our cross-bank cash management platform (CBS), the prestigious cash management product launched by the Company, reached 157. Leveraging on the unique and exclusive edge of CBS in China, and by satisfying the cross-banking management needs of company groups, the Company not only stabilized and consolidated the business cooperation with the existing customers, but also successfully attracted a number of sizable and well-known domestic conglomerates as its new customers, thus providing a platform for cross-selling its wholesale products.

In respect of corporate wealth management, against the backdrop of difficult economic conditions in 2009, the corporate wealth management still developed rapidly. The Company continued to invest its efforts on product research and development and launched various new products, including Sui Yue Liu Jin (歲月流金), Golden Week (黃金周), Jin Yi Qiu Jin (金益求金) and Dai Li Tao Jin (貸里淘金). These products related to investments on treasury bonds traded in inter-bank bonds market, central bank notes, entrusted loans and high quality credit assets transfers. Sales of the corporate wealth management reached RMB457,933 million for the year, representing an increase of 32.54%. The number of new customers is 2,725, representing an increase of 51.04%, among which are a number of sizable and well-known domestic and foreign enterprises. Corporate wealth management business has played a critical role in strengthening non-interest income, attracting new customers and enhancing brand recognition for the Company.

Our international business came across a downturn as a result of the global financial crisis, but managed to render a better performance as compared with the general condition of the country's foreign trade, with its market share constantly increasing. During the Reporting Period, the Company made a number of breakthroughs in its international business and successfully completed the first transaction of RMB cross-border settlement trade in the Canton & Hong Kong region; At the global annual meeting of the Factors Chain International ("FCI"), the Company ranked first in China and eighth globally in export factoring services. In the "Survey on China's Foreign Trade Service Market" jointly conducted by Huaxia D&B and Imp-Exp Executive, the Company was voted the Most Trusted Financial Institute by import & export companies, ranking No.1 among the joint-stock commercial banks; our foreign currency deposits amounted well above US$10 billion, securing us a slot among the admired banks; our interior and exterior, on-shore and off-shore coordinated business has also taken another step forward as the coordinated profits accounting for nearly 30% of fee income of international business; we have also completed a US$93 million transfer of assets denominated in foreign currencies to domestic banks, which represented our first step in assets business denominated in foreign currencies. In 2009, the Company completed an international settlement of US$152.7 billion, with a foreign exchange settlement of US$75.1 billion, an accumulated amount of trade finance of US$11.0 billion, an international factoring amount of US$1.003 billion and a fee-based income of international business of US$203 million. As at the end of 2009, our market shares in international settlement, foreign exchange settlement, foreign currency deposits and international dual factoring business all rose significantly as compared with those in 2008.

With regard to offshore business, the Company adheres to a balanced development of profits, quality and scale. Indicators of a range of businesses continued to rank the first among all domestic peers in terms of market share. As at 31 December 2009, deposits from offshore customers amounted to US$3.768 billion, representing an increase of 75.71% as compared to that at the beginning of the year, while credit assets of offshore customers reaching US$1.340 billion. Credit assets continued to be of good quality, with non-performing loan ratio of new overdue assets and new assets remained at zero. Cumulative incomes from fee-based businesses reached US$19.2681 million, representing an increase of 13.81% as compared to the previous year, while the profits for the whole year amounted to US$39.7108 million.

With regard to businesses with financial institutions, as at the end of December 2009, the balance of placements from other financial institutions reached RMB175.899 billion, representing an increase of RMB59.782 billion or 51.48% as compared to that at the beginning of the year. The balance of over-the-counter asset business with other financial institutions (such as inter-bank placements and credit assets of repurchase nature) amounted to RMB57.420 billion as at the end of the reporting period, representing an increase of RMB20.744 billion or 56.56% as compared to the beginning of the year. As for third party custody business, the Company had 3.37 million clients, including 0.27 million new clients, among which the number of valid institutional customers was 15,473, with 3,519 new customers. Funds under third-party custody amounted to RMB100.183 billion, realizing custody fee of RMB153 million. The Company altogether sold 350 wealth management products, in a total amount of RMB121.698 billion through inter-bank channels. Our gold business grew smoothly, with 0.32 million new accounts and a transaction volume of 26 tonnes, among which the institutional transaction volume reached 16 tonnes, with 334 institutional gold accounts.

With respect to asset custody business, the Company made a profit of RMB479 million from custody business in 2009, with income from custody fees amounting to RMB207 million and balance of assets under custody amounting to RMB208.125 billion, representing an increase of 51.07% as compared to the beginning of the year. Balance of deposits under custody amounted to RMB24.751 billion, representing an increase of 55.97% as compared to the beginning of the year. The Company ranked the first among all domestic joint stock custody banks in terms of the size of assets under custody, product quality and income from custody fees.

As for corporate annuity business, the number of newly contracted corporate annuity customers' individual accounts was 279,400 in 2009, the newly entrusted assets (including those under ancillary custody) reached RMB16.742 billion, while new assets under custody amounted to RMB7.785 billion.

With respect to investment banking business, we recorded a rather fast growth in 2009. As at the end of the year, we recorded an income from investment banking services of RMB584 million, an increase of 108.57% as compared to the previous year. In 2009, the Company seized the historical opportunity arising from the booming development in the domestic inter-bank bonds market and intensified its customer subdivision and marketing efforts, aggressively promoted the underwriting business of debt financing instruments, and recorded an income from underwriting of debt financing instruments of RMB243 million, an increase of 82.71% as compared to the previous year. In 2009, the Company focused on featured financial consultancy business such as merger loans, corporate debt consultancy, governmental financial consultancy and PE investment with satisfactory performance, earning an aggregate of special financial advisory fee of RMB324 million, representing an increase of 117.45% as compared to the previous year. The Company successfully launched the first issue of credit assets securitization products in 2008, and in 2009, all the pooled loans had a clean record of default, with the principal and interests of senior and subordinated securities paid as planned, representing a smooth progress of securitization of credit assets.

As for corporate cards, the Company conducted coordinated marketing activities in 2009, and by the end of 2009, the Company issued 135,360 corporate cards which outperformed the target set for the whole year. Total revenue of corporate cards amounted to RMB59,300,400, among which the non-interest income from domestic transactions was RMB28,290,000, the non-interest income from overseas transactions was US$665,600, and the income from recurring interest, the interest from cash advance loan and the overdue fine of RMB22,294,000.

Customer base

Over the past 22 years, the Company has developed 345,600 corporate depositors and 15,500 corporate borrowers, including domestic industry leaders and large enterprise groups, government agencies, financial institutions, and Fortune Top 500 multinationals. Meanwhile, the Company has been striving to develop small and medium-size enterprises to form a balanced customer structure with large, medium and small customers reasonably proportioned. In addition, the Company's products and services have been widely recognized by our clients who maintain a high level of satisfactions with our services.

5.8.3 Treasury

Operating strategy

As for the RMB business, the overall level of yield curve was relatively low in 2009 mainly due to China implementing proactive fiscal policy and moderately loose monetary policy as a result of the financial tsunami. However, with monetary and credit expansion in giant amount, inflation expectation swelled constantly, and the yield curve became steeper. In the second half of the year, the short– end of the curve yield showed greater upward pressure due to expectation of imminent global existing monetary policy exit and China finetuning its monetary policy. The Company vigorously strengthened its research and judgment on policies and market trends, and seized the rhythm of market operation. In respect of investment allocation on banking accounts, the Company increased investment in short and medium-term notes with maturity in 3 years, and added holdings in high-yield short-term commercial papers, medium-term notes, and moderately increased holdings in the portion of medium and long-term bonds on a stage when the yield curve became steeper. In the third quarter, the Company adjusted its investment strategy to rein credit bond investments, and increased investment in floating rate financial bonds. While attaching great importance to investment allocation, the Company also accurately took advantage of the fluctuation in market interest rates, conducted range trading successfully and realized fair value gain on bonds. In respect of its trading portfolio, the Company managed to grasp every opportunity created by market fluctuations, intensified its trading volume, adopted strategies including interest spread trades and leverage operation, which had all achieved good results. As at the end of the reporting period, the average duration of the debt investments denominated in RMB was 2.59 years.

As for the foreign currency business, the Company strictly controlled the credit risk associated with investment in foreign currency as a result of financial tsunami, therefore, all our new investments were put on debts issued by international financial institutions with high credit ratings, financial bonds guaranteed by governments and bonds issued by large Chinese-funded corporations. With the investors regaining their confidence and the slow recovery of the economy, short-term yield still has room to go lower and there is high upward pressure for the long-term yield, while credit spreads will be gradually narrowed. To this end, the Company strictly controlled the maturity of investment portfolio, rapidly added positions so that most of its investments concentrated on floating rate bonds and mid-term and short-term fixed rate notes with maturity not exceeding three years. Therefore, the Company's plan to hold an additional US$500 million in bond investment for the whole year was achieved ahead of schedule at the end of the first quarter. In particular, the Company seized the opportunity and decisively increased its holding of a large number of overseas bonds issued by Chinese corporations, such as China Development Bank ("CDB"), The Export-Import Bank of China ("China Eximbank"), China Construction Bank ("CCB") and China Merchants Group ("CMG") at a lower consideration in the secondary market, which were dumped in panic at the beginning of the year. With the rapid narrowing of credit spreads and the decrease in short-term yield, bond valuation has been improving steadily. As at the end of 2009, available-for-sale accounts significantly increased by US$93 million since the beginning of the year. As at the end of the reporting period, the average duration of the debt investments denominated in foreign currencies was 1.99 years.

Operating results

In 2009, the annual yield of the Company's foreign currency/RMB-denominated securities portfolio reached 3.17%, down 75 basis points as compared with the full year of 2008. The decrease in investment yield was mainly due to the decrease in the floating rate bonds, newly conducted investments, reinvestment of matured securities as a result of lower market yield. In 2009, the Company's annual yield on financial assets under reverse repo agreement and placements to other financial institutions was 1.51 %, down by 227 basis points as compared with the year of 2008.

As of the end of 2009, the Company's proprietary investment portfolio reached RMB352,258 million, up by 17.29% from the end of the previous year. In addition, assets under management on behalf of customers denominated in both foreign currencies and RMB reached RMB119,973 million, up by 97.59% from the end of the previous year. In 2009, the Company's income from wealth management on behalf of customers reached RMB819 million, a decrease of 35.15% over the previous year.

Business development

In 2009, the Company aggressively explored new business and profit models in dealing operation, and strived to achieve continuous, stable and long-term profitability with controllable risks under the support of advanced electronic business systems. In 2009, the number of wealth management products launched by the Company reached 1,772, with a total issue value of RMB1,229 billion. The balance of the wealth management products launched by the Company ranked second among all commercial banks nationwide. In 2009, the Company actively positioned itself as a market maker. The Company's interbank bond transaction volume reached RMB11.03 trillion, ranking first among the domestic banks in the bond market for two years in a row since 2008. The total bilateral quotations amounted to RMB1,915.1 billion; and the valid amount was RMB66.3 billion through the bilateral quotations. The Company's quotation amount and quotation transactions surged significantly as compared to those in the corresponding period of the previous year. The transaction volume of foreign exchange settlement on the inter-bank quotation market amounted to US$350.0 billion, an increase of 29.29% over the previous year.

5.8.4 Product Pricing

Loans

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

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

Deposits

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

Pricing for non-interest based products and services

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

5.8.5 Distribution channels

The Company provides products and services via multiple distribution channels. As at 31 December 2009, in 65 cities across Mainland China, the Company had 52 branches, 685 sub-branches (including outlets), 2 exclusive operation centers equivalent to a branch (a credit card center and a small enterprise credit center), 1 representative office, 1,760 self-service centers and over 1,700 off-bank self-service machines and one wholly-owned subsidiary, CMB Financial Leasing Co., Ltd.; two wholly-owned subsidiaries, namely WLB and CMB International Capital Corporation, Ltd., a branch in Hong Kong; a branch and a representative office in New York, the United States; a representative office in London. The efficiently operated outlets of the Company are primarily located in China's relatively more economically affluent regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium-sized cities in other regions.

The Company also makes efforts in developing and improving e-banking channels such as online banking and telephone banking, which is highly recognized and has effectively relieved the pressure on the business outlets of the Company. In 2009, the integrated counter-replacement ratio in respect of retail e-banking channels reached 84.10%; whereas it was 44.30% in respect of corporate e-banking channels. As at 31 December 2009, the total cumulative number of online banking transactions was 246,425,300, up by 34.36% as compared to that in the previous year, and the accumulated transaction amount was RMB5,418.27 billion, up by 62.61% as compared to that in the previous year. In particular, the accumulated online banking transaction amount was 161,261,700, up by 57.18% as compared to that in the previous year, and the accumulated transaction amount was RMB69.455 billion, up by 50.99% as compared to that in the previous year. The number of transactions done through U-BANK, the online corporate bank, was 25.79 million, up by 26.06% as compared to that in the previous year. In respect of telephone banking, as at 31 December 2009, the Company sold various types of wealth management products, such as funds, through telephone banking for a total amount of RMB29,124 million. The total transaction amount with Quick & Easy Wealth Management (快易理財) was RMB151,435 million and the number of newly opened accounts reached 2,684,300, both representing a significant increase as compared to that in the corresponding period of the previous year.

In respect of services provided for small enterprises, as at 31 December 2009, the small enterprise credit center has set up first-tier centers in Suzhou, Hangzhou, Shanghai, Nanjing, Ningbo, Beijing and Dongguan, second-tier centers in Nantong, Wenzhou, Wuxi and Taizhou and third-tier centers in Changshu, Zhangjiagang, Kunshan, Ruian, Jiangyin, Wujiang and Yixing, each having a number of marketing teams. The Company has preliminarily finished its goal of setting up small enterprise credit centers in major cities in Yangzi River Delta and at the same time started to commence operations of small enterprise credit centers in Pearl River Delta and Bohai Rim. Besides, leveraging on the powerful research and development resources of the Head Office, the small enterprise credit centers are building e-banking channels such as online corporate banking and telephone banking with characteristics of small businesses and achieved initial results.

5.8.6 Overseas businesses

Hong Kong Branch

The Company provides overseas banking business, including corporate and retail banking, via its Hong Kong Branch established in 2002.

Corporate banking service provided by our Hong Kong Branch includes loans and deposits, remittance, factoring, international trade facilities and settlement, initiating or participating in syndicated loans, and participating in inter-bank transaction of funds and bonds. Retail banking includes providing cross-border electronic banking services for individual customers between Hong Kong and Mainland China, and the featured product is the "Hong Kong All-in-one Card". The cardholder can withdraw cash from ATM and pay with their cards via POS through "China UnionPay", "Hong Kong JETCO" and "EPS" in both Hong Kong and Mainland China, and enjoy real-time online remittance service between the two places.

Hong Kong Branch launched the "Bank-Security Express" services in February 2009 where the customers may trade Hong Kong stocks easily and efficiently through online banking and telephone banking, enjoying unparalleled ease and convenience in investment and wealth management.

New York Branch

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

The New York branch of the Company is positioned as an international settlement and trade finance bank committed to facilitating economic cooperation between China and the US. Treasury and clearing business are important supplements to its business. The New York branch is committed to offering tailored services for Chinese enterprises "going global".

The year of 2009 was the first year of full operation of the New York Branch. In response to the complicated economic conditions, the New York Branch abided by the principles of adequate compliance, controlling risks, proactive exploration and prudent management. On one hand, it focused on infrastructural development and has established management structures, regulations and business systems vital for the smooth operation; on the other hand, it seized the opportunities for Chinese banks arising from the tightened-up credit market in US and launched a number of basic businesses and gained relevant valued experience of operating in a foreign country. The teambuilding has basically completed and official headcounts totalled 32 at the end of the year. Besides, it also formulated policies, regulations and management methods vital for the branch's operation, including those on administrative management, credit management, accounting and auditing, financial management, funds management, compliance management, risk management, operation management and IT management. An internal control system was also put in place. All the modules of its core business system generally met the basic business requirements. Moreover, the online operations of inter-bank telecommunications system (SWIFT), US dollar clearing and payment system (CHIPS and FEDWIRE) and check clearing system (Check21) were successfully launched, AML System Prime is under healthy operation, and the internet corporate banking system has reached the final testing stage before official launch.

5.8.7 Information Technology and Research & Development

The Company highly stresses the building of and investments in IT infrastructure. In 2009, we strengthened the IT infrastructure building, further improved IT governance structure, and optimized the organization and functions of the Information Control Committee and the Technical Organization Committee. We set up complementary professional support teams, who are in charge of coordinating the IT strategy and investment and controlling the organization, planning and technical standards for our IT support system.

We strengthened the protection on the operating and control systems to secure the effective support of IT system for business development. The system supported the steady operation of business during the year. Our indicators of UnionPay system and counter-replacement ratio of e-banking continued to lead our peers, realizing an effective operation. The Shanghai Data warehouse, which was constructed to high standards, is under construction, so as to ensure the supporting capacity of the IT infrastructure.

The Company continued to put resources into research and development and finalized the mid-term planning of IT system, so as to ensure that significant projects can be developed and started, and to bolster the rapid development of business. The Hangzhou Software Development Center was officially put into use, which enhanced our developing capacity. Substantial investment in the CRM and retail CRM management system of the Company gave a strong impetus to the management of customer resources. We systemized and improved the entire income auditing and cost spreading system, checked management accounting of customers, products and organizations. We strengthened the development of information management system, and has established a relatively comprehensive credit risk management system. We further improved the wealth management system, to maintain our leading position in wealth management market. We exerted great efforts in developing leasing, custody, factoring and annuity business systems, which supported the expansion of emerging businesses. We built the TMS, CBS, UB7.0 online corporate banking system, which provide full-range and multi-layer services to corporate customers, so as to maintain the competitive advantage of our online corporate banking business. The replacement ratio in respect of retail e-banking reached 84%, realizing the operational excellence of our retail business. Also, we are committed to develop international businesses. After completion of initial integration with Wing Lung, we started to design the structure of overseas core system.

5.8.8 Businesses of Wing Lung Group

Profile of Wing Lung Bank

Wing Lung Bank Limited ("WLB"), founded in 1933, is one of the oldest local Chinese banks in Hong Kong. It has at all times followed its motto of "Progress with prudence, service with sincerity" in providing personalized and sincere service to the public. The principal operations of WLB and its subsidiaries ("WL Group") comprise deposit-taking, lending, credit cards, documentary bills, foreign exchange, futures and securities broking, wealth management service, insurance business, financial lease, property trustee and nominees service. As of 31 December 2009, the registered capital of WLB is HK$1,500 million.

Business Operation Overview of WL Group

WL Group recorded a consolidated profit after tax of HK$884 million for the year ended 31 December 2009. Net interest income amounted to HK$1.332 billion, representing an increase of 4.27% from the same period of last year. Loan-to-deposit ratio was 55.52%, which is higher than 2008's 50.48%. In view of low interest rate environment, the significant increase in loan amount offset the impact of low interest rates. Net fees and commission income amounted to HK$382 million, representing an increase of 11.24% from the same period of last year, which was mainly contributed by the growth in commission income from securities brokerage given active stock market. The insurance business achieved a turnaround from a net expense in 2008 to a net income of HK$5.05 million (before taking investment gains into account), mainly due to the decrease of 23.00% in the claims for insurance. Moreover, WL Group's impairment charge for credit losses was HK$78 million, representing a decrease of 89.56% from that of 2008, which was mainly attributable to substantial provisions for certain debt securities investment made in 2008 amidst the financial tsunami. Operating expenses amounted to HK$1.152 billion, an increase of 10.03% as compared to that of 2008. Of the total, staff cost went up by HK$48.13 million, mainly due to the increase in number of employees and retirement benefit cost. Besides, depreciation expenses also increased by HK$20.80 million.

At the end of 2009, total assets and net assets of WL Group increased by 16.62% and 9.63% to HK$117.31 billion and HK$11.404 billion respectively when compared to the end of 2008.

As at 31 December 2009, the capital adequacy ratio and core capital adequacy ratio of WL Group were 16.20% and 9.86% respectively, and the average liquidity ratio for 2009 was 54.96%, all above statutory requirements. To enlarge its capital base for future business growth, WLB issued subordinated notes totaling HK$3 billion (including subordinated notes of HK$1.5 billion issued to CMB) in 2009.

Deposits

As at 31 December 2009, total deposits of WL Group grew by 10.94% to HK$92.301 billion as compared with that at the end of 2008. Among the various kinds of deposits, Hong Kong Dollar deposits increased by HK$6,451 million or 11.94%, of which time deposits recorded the strongest growth; the US Dollar deposits after conversion decreased by HK$1,438 million or 10.67%; and deposits in other foreign currencies after being translated into Hong Kong Dollar surged by HK$4,091 million or 26.07%, among which Renminbi deposits after translation rose substantially by HK$774 million or 74.16%.

Advances to customers

As at 31 December 2009, WL Group's total advances to customers, including trade bills, grew by 21.59% to HK$52.868 billion as compared with that at the end of 2008. Overall loan quality remained sound with a non-performing loan ratio of only 0.80%.

With respect to corporate banking business, the balance of loans amounted to HK$22.021 billion at the end of 2009, an increase of 43.22% over that at the end of 2008. In 2009, WLB devoted much effort to expanding its syndicated loans, corporate loans to large enterprises in both China and Hong Kong as well as business in accepting guarantee from domestic enterprises as security for loans granted to overseas enterprise, and the results were remarkable.

As to commercial banking business, the balance of loans amounted to HK$872 million at the end of 2009, representing an increase of 68.84% as compared to that at the end of 2008. Given sluggish foreign trading environment, the small and medium sized enterprises appear to be on a slow path of recovery.

With respect to mortgage and personal loan business, total loans (including all branches) amounted to HK$24.991 billion at the end of 2009, representing an increase of 5.09% from year-end 2008. Of the total, residential mortgage loan balance amounted to HK$9,429 million, representing a decrease of 1.29% as compared with that at the end of 2008, which was mainly due to customers' early redemption of loans.

Investments

As at 31 December 2009, WL Group's debt securities investment portfolio amounted to HK$28.867 billion, representing an increase of 167.72% over that at the end of 2008. The increment was mainly attributable to the purchase of several tranches of high quality bonds during the reporting period in order to increase interest income. At the end of 2009, an impairment of HK$116 million was made for the debt securities. More than 82.75% of such debt securities are rated A3 or above and their risks are comparatively low.

Treasury

For the year 2009, revenue from foreign exchange trading amounted to HK$71.64 million, representing a decrease of 21.17% as compared to last year. The continuously weakness of US Dollar caused foreign exchange trading to shrink, suppressing foreign exchange revenue and related earnings. Supported by robust economic growth in China and influx of foreign currencies, revenue from foreign money exchange amounted to HK$37.82 million, representing a sharp increase of 40.79% over 2008.

Wealth management

WL Group's wealth management business realised a revenue of HK$28.64 million in 2009, representing a decrease of 42.23% as compared to 2008. The decrease was primarily attributable to the sales suspension of certain relatively higher risk products. Moreover, investors' prudent view toward the market also dampened revenue generation.

WLB has focused on developing its wealth management service branded "Sunflower", providing a comprehensive service platform to high-end customers, thus achieving brand and service integration with CMB.

Credit card

WLB issued more than 240,000 credit cards as at 31 December 2009, down 3.52% from 2008 year-end. The credit card receivables amounted to HK$423 million, down 10.20% as compared to the 2008 year-end level. WLB has adopted a prudent credit card approval policy, resulting in contraction in the total number of credit cards issued and the receivable balance. The merchant business turnover was HK$2,316 million, up 19.98% as compared to the year 2008.

Following the launch of the world's first diamond credit card "Luxe Visa Infinite", WLB issued the first "World MasterCard for Business" in the Greater China, aiming at attracting high-end customers. WLB will strengthen the close collaboration with CMB for sharing more mutual promotion programs from merchants, allowing cardholders of two banks to enjoy favourable offers. Meanwhile, WLB will continue to launch various spending reward programs and merchant offers to customers, thus enhancing the appeal of products. To provide customers with diversified products, WLB is now studying on the launch of dual currency card.

Securities broking

Supported by the continuous influx of capital, the local stock market recorded a considerable growth in 2009, evidencing an active market. In 2009, Wing Lung Securities Limited ("Wing Lung Securities"), a wholly-owned subsidiary of WLB realised a commission income of HK$235 million, representing an increase of 24.49% as compared to that of 2008, and achieved a growth in market share. Wing Lung Securities launched various privilege offers in order to boost customer transactions.

Wing Lung Insurance

Wing Lung Insurance Company Limited ("Wing Lung Insurance"), a wholly-owned subsidiary of WLB realised a gross premium income of HK$604 million in 2009, representing a decrease of 9.22% as compared with that of 2008. Total insurance claims amounted to HK$403 million, a substantial decrease of 23.00% as compared to that of 2008. Underwriting business recorded a loss of HK$45.67 million, indicating a remarkable improvement as compared to a loss of HK$131 million in 2008. Investment income also recorded a good growth.

Branch network

The original logo was replaced with CMB's logo in all branches in May 2009. WLB proactively expanded its branch and distribution network. In 2009, WLB achieved target of setting up three additional branches, namely Des Voeux Road West Branch, China Hong Kong City flagship branch and Mei Foo Sun Chuen Branch. WLB has a total of 39 banking offices, including headquarter and branches in Hong Kong at present.

Currently, WLB has 2 branches, a sub-branch and a representative office in the PRC, and two overseas branches, one in Los Angeles and the other in Cayman Islands.

The preparation work for the set up of Macao Branch as well as the upgrade of Guangzhou representative office is in progress.

Human resources

As at 31 December 2009, the total number of employees is 1,711 (31 December 2008: 1,680), of which 1,592 are in Hong Kong, 104 are in the PRC and 15 are overseas.

Lehman Brothers Minibonds Repurchase Agreement

In July 2009, WLB entered into a repurchase agreement with 15 other distributing banks and the regulatory bodies under which each bank would offer to repurchase the Lehman Brothers Minibonds from eligible customers. During 2008 and 2009, WLB has made full provisions of HK$213 million for the Lehman Brothers Minibonds repurchased from the eligible customers and the other charges under the repurchase scheme. The repurchase of Lehman Brothers Minibonds progressed smoothly. Most of the eligible customers accepted the offers of the repurchase scheme. The value of the Lehman Brothers Minibonds repurchased by WLB is not recognised in the account due to uncertainties over the ultimate value of the said minibonds.

Internal Control and Risk Management of Wing Lung Bank Group

The board of directors and senior management of WLB are responsible for establishing, maintaining and operating an effective system of internal control. The expectations of WLB's board of directors regarding duty, responsibility and integrity of each department are clearly spelled out in the formal policy statements, which include Code of Conduct, Internal Control Policy Statement and Compliance Policy Statement, etc. The board of directors of WLB has clearly defined the lines of authority and responsibilities of each business and operational unit to ensure adequate checks and balances.

The internal control system covers every business and operational function of WL Group. The system is designed to safeguard WL Group's assets against loss and misappropriation; to maintain proper accounting records for producing reliable financial information; to provide reasonable, but not absolute, assurance against material fraud and errors. Policies and procedures are established to ensure compliance with applicable laws, regulations and industry standards. To cope with the increasingly stringent requirements from relevant regulatory authorities together with ever-changing business environment, the board of directors of WLB has dedicated more resources and efforts to further strengthen WL Group's management structure and oversight. WL Group has also established an Internal Control Committee with a primary objective of assisting management to oversee the overall internal control system of WL Group. Regular Internal Control Committee meetings are held and the Internal Control Committee reports its work to WLB's Management Committee annually.

WL Group had in place various risk management policies and procedures. There are specific committees and units, such as Credit Committee, Risk Management Committee and Asset and Liability Management Committee, which are responsible for identifying, assessing, monitoring and managing the risk that WL Group faces. Risk management policies and major risk control limits are established and approved by WLB 's board of directors or the Management Committee of WLB respectively.

Progress of Integration with WLB

After the acquisition of WLB, the Company attached great importance to integration of business, and prepared a detailed integration plan. We aim to enhance the coordination of domestic and overseas business and strengthen our key competencies, so as to achieve "lay a foundation within one year, achieve remarkable results within three years and obtain success within five years". In 2009, guided by the abovementioned policy and objective, we gradually streamlined cross-border business introducing process, and coordinated business has been conducted properly. Key competencies were enhanced and initial signs of synergies were emerged. The first year goal of WL Group's integration has been successfully achieved.

Firstly, coordinated business grew rapidly and signs of synergies emerged. The Company and WLB jointly put great effort and focused on the main business opportunity arising from demand from cross-border financial market. Sharing the customer resources and connecting the domestic and overseas business brought new breakthrough to us and obtained sound effect. The Company and WLB worked together in various areas, such as accepting guarantees from domestic enterprise as security for loans granted to overseas entity, accepting guarantees from overseas entity as security for loans granted to domestic enterprise, inter-company syndicated loans, assets transfer, bank acceptance, international settlement, financial market trading business, central purchase, receiving business for IPO and swapping of credit card-settled discount businesses. As at the end of the reporting period, our branches within China have successfully recommended corporate customers to WLB with loans of HK$3.261 billion and deposits of HK$1.094 billion. The revenues generated from corporate intermediary business amounted to HK$22.25 million. The Company has successfully recommended individual customers to WLB with loans of HK$87.96 million and deposits of HK$83.02 million respectively. WLB and CMB mutually provided 61 and 62 credit card-settled discount businesses in Hong Kong and Mainland China, involving 750 and 89 outlets respectively. During the reporting period, WLB was granted two business qualifications by the HKMA, namely "Account Opening Witnessed by CMB Manager" (見證開戶) and "Sub-receiving Bank for IPOs," (首次公開招股副收款行) and launched popular cross-border products such as "Financing Passage for SMEs in Hong Kong and the Mainland" (中港中小企業融資通) and "China – Hong Kong Express Link" (匯款快線), and WLB was also proactively preparing for the "Sunflower" wealth management business.

Secondly, operational management was continually strengthened and key competencies were gradually enhanced. In view of business development needs and new management philosophy, WLB adopted organizational structure by customers to replace the organizational structure by products, identified a number of profit centers, focused on risk management and back office processing operations, realized separation of the front office, middle office and back office, so as to further improve its risk control capability. IT integration was carried out smoothly, with a goal of "providing cross-border services, building comprehensive platform for cross-border services". The upgrading of main server system reached the testing stage, and application system was also upgraded. The Logo of WLB had been successfully replaced, cultural integration was gradually promoted, real progress was made in building of channels, and the business ability, management capability and brand image of WLB was substantially enhanced.

While we carry on the integration with the consistent support of staffs in both banks, the Company will continue to put forward the integration process as scheduled to achieve the overall goal of the integration, that is "lay a foundation within one year, achieve remarkable results within three years and obtain success within five years".

5.8.9 Business of CMB Financial Leasing

CMB Financial Leasing Co., Ltd. (hereinafter called "CMBFL") was one of the five pilot bank-affiliated financial leasing firms approved by the State Council. Approved by CBRC on 26 March 2008, it commenced its business in Shanghai with a registered capital of RMB2 billion. It is wholly owned by the Company.

The primary businesses of CMBFL are guided by China's industrial policies. It provides financial services such as financial leasing, asset management, investment and financial advisory to customers including large scale equipment producers in shipping, transportation, power and telecommunication industries and SMEs.

Since its establishment, CMBFL has actively expanded its business and developed a sound internal management system. As at 31 December 2009, with 70 employees, CMBFL reported a total asset of RMB10.241 billion and a net asset of RMB2.130 billion. Realized net profit reached RMB89.8559 million. Its business structure has been rationalized and business models have been diversified. It has taken active initiatives in exploring professional commercial development models. In addition, it has strengthened its risk management system in an all-round way and improved human resource. It has also developed its proprietary "leasing business system" and has established an effective internal incentive system.

In 2010, CMBFL will adhere to the operation philosophy of "solid foundation, ability training, accurate positioning, brand innovation" in expanding its business, enhancing its management level, delivering innovative ideas and accelerating its business development.

5.8.10 Business of CMB International Capital

CMB International Capital Co., Ltd. ("CMBIC") is a wholly-owned subsidiary of the Company in Hong Kong. Currently, CMBIC's businesses mainly cover corporate finance advisory services, security brokerage and security investment.

As at 31 December 2009, CMBIC had a registered capital of HK$250 million and 59 employees. Total asset was HK$818 million, an increase of 88.9% as compared to the beginning of the year. Net asset was HK$341 million, an increase of 0.29% as compared to the beginning of the year. Realized operating income amounted to HK$44.23 million in 2009, an increase of 113% over 2008. Realized net profit was HK$4.77 million.

In 2010, CMBIC will undertake large-scale restructuring in areas such as personnel, IT transactions and research information platform and market exploration. Based on the analysis of market opportunities and its own resources, taking the Company's advantages in domestic networks and client resources, the advanced IT platform and research advisory business capability, CMBIC will continue to develop securities brokerage business and increase its efforts in investment banking business.

5.8.11 Business of China Merchants Fund Management

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

As at 31 December 2009, CMFM reported a total asset of RMB748 million and a net asset of RMB605 million with 169 employees. Realized operating income totaled RMB506 million in 2009. Realized net profit was RMB141 million. CMFM had altogether 13 open-ended mutual funds with assets under management totaling RMB52.7 billion.

In 2010, CMFM will increase investments in investment research segment in order to improve its performance. CMFM continues to strengthen internal control and risk management whilst pursuing different marketing strategies so as to build a more solid foundation for future development.

5.9 Risk management

5.9.1 Credit risk management

Credit risk refers to risks arising from failure to fulfill their obligations by the borrowers or the counterparties of the Bank under the negotiated terms and conditions. The Company endeavors to formulate an independent risk management system for credit risk management and implement bank-wide policies and procedures, including credit risk identification, measurement, monitoring and management, to control the credit risk of the Company and maintain balanced profitability.

Risk Control Committee of Head Office is the highest authority of the Company in credit risk management. Under the framework of the risk management strategy, policies and authorizations approved by the Board, the Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies, and reviewing the complicated credit items. The Company separately reviews the credit risk according to business risk and approval system. The decision-making entities include: Risk Control Committee of Head Office, Professional Reviewing Committee of Loan Assessment of Head Office, and Risk Control Committee of Branch. The Company has formulated a comprehensive credit approval and authorization system according to credit management level, the borrowers' credit ratings and credit guarantee conditions. The Company has also implemented practicable authorization standards, authorization methods and authorization adjustment requirement. The Company is strictly in compliance with the principle of separating the authorization of reviewing credit and granting loans. The procedure of triple review is strictly applied before, during and after loan granting. The system of cross-checking among different positions and responsibilities are designed according to various risk control procedures of credit business. The Company has established a well-defined accountability system to ensure the function of procedure of risk control management.

In 2009, despite some positive signs, uncertainties remained in the recovery of the macro economy, and no solid foundation was noted for a sustained economic recovery. The Company greatly improved its credit management capability mainly through "improvement of regulations and policies, deepening group management, implementation of risk pre-warning and quantification, active system construction, strict inspection and accountability, intensified team-building" by closely adhering to the principles of "healthy growth, proactive response, solid foundation and quality enhancement". Firstly, the Company improved the credit approval efficiency, standardized the management process, optimized the credit structure by perfecting the credit-related regulations including the loan approval and authorization, study of industry credit policy covering key sectors, introducing the guidelines for granting loans to the government credit platform, adjusting credit granting policy on a rolling basis. Secondly, the Company continued to improve the credit product quality by increasing alarming interaction between the branches and the Head Office, implementing collective and individual risk warning and identification, advancing the control of the systematic risks associated with the Group's clients, furthering the triple reviewing policies, increasing collection, write-off and accountability of NPAs and strengthening management and monitoring of existing credit business. Thirdly, the Company implemented risk quantification technology, promoted construction of management systems, and continuously optimized the risk management fundamentals. Fourthly, the Company strengthened the cultivation of a quality risk management team via construction of the sequence for risk manager, thereby bring forward the management of risk exposure to an earlier stage.

The economic and financial situation at home and abroad will become even more complex and volatile in 2010. The Company will meet the major challenge of balancing business expansion and risk management in a proactive manner, and adhere to a healthy growth principle. Furthermore, the Company will enhance the integrated and streamlined risk management via the optimization of the credit risk management process and implementing the plan of upgrading the overall credit risk management, thereby effectively increasing the risk-return profile in order to maintain the quality of the credit assets at a steady level.

5.9.2 Liquidity risk management

Liquidity risk refers to the risk that the Company is not able to satisfy its customers' needs of withdrawal, application of new loans or repayment of debts due, or the risk that the Company is not able to raise sufficient funds at reasonable cost to perform its own obligations. The Assets and Liabilities Management Committee of the Company takes charge of the management of the Company's overall liquidity, while the Planning and Finance Departments in the Head Office and branches are responsible for execution.

In 2009, there appeared obvious signs of recovery in the global economy thanks to the commitments by governments around the world to boost economic recovery and maintain the stability of financial system. Aiming to maintain stable economic growth, the Chinese government continued to adopt positive fiscal policies and moderately loose monetary policies. The liquidity on domestic market was generally abundant due to the loose monetary policy adopted by the People's Bank of China and the inflow of global liquidity. In the first half of the year, in view of the favorable marco-economy and market conditions, the Company avoided redundancy of capital and improved the efficiency of capital utilization through investment and financing activities, such as granting more loans, encouraging bonds investment, placements with other financial institutions and asset repurchase. At the end of the second quarter, the central bank started to fine tune its monetary policy, and in the fourth quarter, the central bank further moderated its monetary policy, thus turning the conditions of market capital from extremely loose to moderately loose. To cope with the change in the monetary policy, the Company timely adjusted its liquidity management policy to utilize its internal funds more flexibly and reasonably, thus ensuring that its internal funds can be fully utilized while maintaining enough liquidity supply. As at the end of December 2009, the liquidity risk of immediate repayment by the Company was relatively small. The results of stress test showed that the Company was capable of coping with liquidity risks under medium stress scenario.

5.9.3 Interest rate risk management

Interest rate risk refers to the risk of adverse impact of fluctuating interest rates on the financial condition or market capitalization of banks. The interest rate risks faced by the Company include the basis risk of assets and liabilities, re-pricing risk, yield curve risk and option risk. In particular, basis risk is the primary risk faced by the Company, followed by the re-pricing risk. The yield curve risk and option risk are relatively insignificant. In adherence to our prudent approach in risk management, the Company's overall objective of interest rate risk management is to achieve steady growth of net interest income under acceptable range of interest rate risk exposure. The Company mainly uses the scenario simulation analysis, re-pricing gap analysis and duration gap analysis and other methods to measure and study the interest rate risk of its bank account, and to manage its tail risk in combination with stress test results.

In 2009, the Company formulated the "Regulations of China Merchants Bank on Bank Account Interest Rate Risk Management" and established a limit monitoring system, which laid a solid foundation for its bank account interest rate risk management. At the same time, the Company perfected its treasury system and relevant operation mechanism, thereby effectively managing its bank account interest rate risk through the treasury management model. Thanks to the aforesaid improvement of systems and mechanisms, the Company can, based on the principle of "balancing between risk and income", monitor the macroeconomic situation, product pricing and market risks on a monthly basis, make rolling forecasts on net interest income; and detect problems, analyze the underlying causes, propose and implement solutions in a timely manner. In 2009, the Company has taken a number of management measures in respect of the on-and-off-balance-sheet bank account interest rate risk, which have reduced our interest rate risk to some extent.

5.9.4 Exchange rate risk management

Exchange rate risk refers to the negative impact arising from fluctuating exchange rates on the foreign currencies denominated assets and liabilities of banks. The exchange rate risk of the Company is mainly measured through foreign exchange exposure analysis, sensitivity analysis, stress tests and Value at Risk ("VAR").

The exchange rate risks are divided into structural exchange rate risk and transaction exchange rate risk. Structural exchange rate risk refers to the exposure arising from the mismatch between the currencies of structural assets and liabilities. The Company carries out such business under the principle of matching the source of funds denominated in various currencies with its utilization. Transaction exchange rate risk comes mainly from the provision of foreign exchange trading services by the Company to its customers. Exposure risks exist when the Company fails to immediately hedge all of the foreign exchange positions and when the Company holds a foreign exchange position based on the expectation of future trend with a view to profit from exchange rate differences. The Company contains its foreign exchange transaction risk primarily through setting risk exposure and stop-loss limits.

5.9.5 Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or unsound internal procedures, incompetent personnel or IT systems, or external events. The Company improved the organizational structure, carried out the measurement of risk, developed management tools, formulated and improved relevant risk management policies by implementing the New Basel Capital Accord. The Company also strengthened internal control, performed the operational risk screening, enhanced staff's risk prevention awareness and ability, and implemented a strict accountability system, so as to vigorously enhance the capability and effectiveness of operational risk management of the Company. Major measures taken during the reporting period were as follows:

1. In order to further enhance our ability in operational risk management, and effectively identify, evaluate, monitor and control operational risks, the Company established an independent operational risk management department in the Head Office. This is a significant strategic step taken by the Company to improve its overall risk management system. The duties of such department are to take responsibilities for management of the whole bank's operational risk, as well as establish and improve the operational risk management system.

2. Pursuant to the requirements of the section "Standardized Approaches" under the "Guidelines on the Measurement of Operational Risk Regulatory Capital of Commercial Banks" promulgated by CBRC, the Company finished the measurement of its operational risk regulatory capital in 2008 and in June 2009, which included the measurement of operational risk in the Group and in legal entities, respectively.

3. The Company actively carried out the building of operational risk management system, and completed the staged task. During the reporting period, the Company completed the pilot application of the phase 1 operational risk management system in three business lines, and started the building of the phase 2 operational risk management system, with an aim to build an overall operational risk management system from management organization, administrative policies, management procedures and tools to regulatory capital measurement. The company has completed the design of the bank-wide administrative policy framework and the management tools and methods, identified the operational risks of 50 main procedures and 120 products in accounting, international and retail businesses and the corresponding control measures, and compiled a glossary of operational risks and corresponding control measures applicable to the whole bank.

4. The Company initiated the building of information technology risk management system, which included the formulation of the IT risk management framework, building of organizational structure, policy, strategy, standard, process and method of IT risk management, and operating mechanism and culture of IT risk management, etc.

5. 87 emergency response drills was conducted to information system, which mainly covered all of the important information systems of the whole bank. The Company upgraded the structural usability protection approaches for systems, so as to ensure the usability and rapid recovery of such systems.

5.9.6 Compliance risk management

Compliance risk refers to the risks of being subject to legal sanctions, regulatory punishments, major financial losses, and reputation diminishing as a result of commercial banks' failure to observe the laws, rules and guidelines. Our goal for the management of compliance risks is to achieve an effective identification and management of compliance risks by establishing a sound compliance risk management framework to ensure operations in a legal and compliant manner.

The Company has established a complete and effective compliance risk management framework and built up an organizational management structure which comprises compliance management committees, heads of compliance issues, compliance officers, legal and compliance departments of head office and branches, management departments of branches and compliance supervisors of sub-branches. The Company has constructed three defense lines of compliance risks management and double lines of multi-dimensional reporting mechanism, and is continually enhancing and improving mechanism and management process of compliance enforcement, so as to ensure effective management of compliance risk. Major measures taken in 2009 included:

1. Continuously improving the organizational system and building solid foundation for compliance risk management. After establishing a bank-wide management structure which comprises compliance officers and compliance supervisors, we further regulated the responsibilities and working processes of compliance officers and compliance supervisors, ensure the well functioning of each organization and effectiveness of first defence line of risk management and control. Coordination between the second and the third defence lines was strengthened, while information communication and feedback mechanism between the compliance departments and the third defence line was implemented. The compliance management of overseas organizations and subsidiaries has been incorporated into the compliance management framework of the bank, so as to strengthen the management of overseas branches and wholly-owned subsidiaries and widen the scope of compliance management.

2. Developing and implementing compliance risk management system and constructing a technical platform under professional compliance risk management. The system comprises functional segments such as internal and external management, compliance management, risk management, legal management and consolidated management, which covers all relevant elements of compliance risk management system. The system is a technical tool which enhances the identification, assessment and monitoring of compliance risks. Besides, it issues guidance related to internal and external compliance and compliance risk reminder to all employees in the bank promptly and effectively, and assists each level of management to realize compliance management. The system has a significant effect in enhancing the efficiency and effectiveness of compliance management.

3. Compiling "Compliance Handbook" and creating basic tools for compliance risk management. We completed the preparation of the first batch of "Compliance Handbook" related to seven main business lines, which refines and points out the important issues needed to be complied in business management and operation, reveals the consequences of any non-compliance, and provides a basis, standard and tool for lawful operation and compliance for the operating units and staff.

4. Diversifying compliance risk management methods, so as to ensure effective management of risks. The Compliance Risk Management Program, which focused on risks, was compiled and executed in order to highlight important compliance and management issues of the year. Legal compliance investigation and compliance risks streamlining were conducted at all levels to identify, assess, and eliminate compliance risks. Compliance inspections, tests, and special investigations were conducted so as to procure the building of a long-term and effective compliance risk elimination mechanism.

5.9.7 Reputation risk management

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

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

In 2009, the Company took the following steps to improve its reputation risk management. Firstly, the Company formulated the "Administrative Measures on Reputation Risk Management of China Merchants Bank Co., Ltd.", established a bank-wide reputation risk management system and clearly defined the duties and responsibilities of the heads of various departments and divisions and those assumed by liaison persons. Secondly, the Company formulated the specific and systematic measures to deal with major reputation events, attached great importance to the operability and assessability of the administrative measures and various initiatives, clearly defined the relevant management duties and limits of rights, and ensured an effective continuity among all business sectors and procedures, thus laying a solid foundation for establishing a bank-wide highly efficient reputation risk management system. Thirdly, the Company enhanced education of reputation risk, organized relevant trainings on risk prevention and emergency response, and directed its employees to proactively safeguard the reputation of the Company and embedded the reputation risk management culture in every position and work flow.

5.9.8 Anti-money laundering management

The Company takes anti-money laundering as its social responsibility and legal liability. It has attached great importance to anti-money laundering oversight through establishing a professional anti-money laundering team, establishing sound anti-money laundering system and procedures, developing and operating database of name list and filtering system, monitoring and reporting system for data on anti-money laundering, and conducting anti-money laundering trainings on an ongoing basis to improve employees' anti-money laundering awareness and skills.

During the reporting period, according to regulation and the Company's reality, we amended the "China Merchants Bank's Anti-money Laundering Requirements" and supplemented the "Due Diligence Investigation Procedures for Anti-money Laundering and Anti-terrorism financing on Corresponding Banks of China Merchants Bank". We focused on international business, cash business and e-banking business, and put more efforts on due diligence investigation on customers and elimination of money laundering risk, continuously improved classification of customer risks, enhanced the quality of large amount and doubtful transaction reporting, initiated inspection and trainings on anti-money laundering, and completed the 2009 anti-money laundering planning in all aspects.

5.9.9 Implementation of Basel II

In February 2007, CBRC released the "Guidelines on the Implementation of Basel II Framework by China's Banking Sector", which decided that the first group of commercial banks would be regulated based on Basel II framework from 2010 or, with approval, no later than 2013. Driven by the underlying needs to pursue an international strategy and improve reputation as well as operation and management, the Company strives to become one of the first batch of banks to be approved by CBRC to adopt Basel II. To this end, the Company set up the Basel II Implementation Office under the Head Office to lead various preparation work for the implementation of Basel II. Based on a detailed gap analysis, the Office developed an overall plan of Basel II implementation, which adjusted the task to 13 enforceable project groups based on actual progress of implementation, to refine and optimize the existing risk management system. Currently, 6 risk measurement groups have been completed, 7 project groups are well underway and achieved progressive results. In February 2010, the Company made application to CBRC for preliminary appraisal of Basel II implementation, and agreed to be monitored by CBRC.

5.10 Changes in external environment and responding measures

5.10.1 Operating environment, macroeconomic changes and their impacts

1. Operating environment

The year 2009 witnessed a complicated and volatile economic situation. Facing remarkable slowdown in import and export growth and difficulties in driving consumption demands, the Chinese government resolutely launched a RMB4 trillion state investment package and the revitalization plans for ten major industries, and implemented active fiscal policies and moderately loose monetary control. Therefore, the domestic macro economy revived steadily quarter by quarter from sharp decline and experienced a "V-shape" rebound. In terms of structure, major economic growth boosters changed from investments and imports and exports to investments and consumption. The rapid increase of investment in fixed assets in China was the main driving force for economic recovery. Stable growth of consumption also became a strong spotlight on economic growth. Imports and exports declined but showed clear signs of rebound at the end of the year.

Facing the complicated and changeable macroeconomic environment, the Company actively responded and made timely adjustments to its strategies. On one hand, the Company closely followed the government's macroeconomic policies, enhanced its support to economic growth by increasing the credit granting, closely tracked macroeconomic changes, and adjusted credit structure pursuant to the State's industrial policies. On the other hand, in achieving rapid development of assets and liabilities, the Company focused on businesses with low capital consumption and high return rates, and endeavoured to expand the intermediary business to develop new value drivers.

2. *Credit granting*

In the first half of the year, all commercial banks increased their loan granting paces under the moderately loose monetary policies of PBOC to align with the government's macro-economic stimulus package, which continuously accelerated the monetary growth. In the second half of the year, under the restriction of capital adequacy ratio and the requirement of loan control, credit granting was restricted instead of encouraged. Therefore, commercial banks adjusted the granting of loans to ensure balanced disbursements of total loans, optimize loan structure and strengthen credit risk prevention.

We rapidly responded to the changeable credit trends. In the first half of the year, we increased new loans and promoted faster growth of credit granting. However, in the second of the year, the Bank timely revised its credit granting directions, strengthened credit structure adjustment and promoted balanced credit granting. With the further implementation of business strategy, the Company further optimized its credit structure and increased the credit granting amounts and proportions to SMEs.

3. *Interest rate changes*

At the end of 2008, PBOC lowered the statutory benchmark interest rates for deposits and loans and the favorable policies for individual home mortgage loans were expanded. As a result, NIM level of the Company decreased to a certain extent in the first half of the year due to the re-pricing of interest-bearing assets. Amid such adverse environment, the Company proactively improved the asset and liability structure and endeavoured to enhance its loan pricing ability. In addition, with the completion of re-pricing interest-bearing assets and the gradual rise in market interest rates, NIM steadily recovered in the second half of the year.

5.10.2 Key issues emerged in the course of business and measures adopted

1. *Credit risk management*

With the Chinese Government's economy-stimulating policies gradually rolling out in 2009, China's macro economy has stopped descending and showed signs of revival while still facing many uncertainties, i.e. accelerated industrial structure adjustment pursuant to the macroeconomic control policies as well as increasing credit risk in excessive capacity industries; real estate prices in some cities rising too fast, resulting in higher risks in relation to real estate loans; loans extended through the government's financing platform growing too fast in the early stage, resulting in high debt ratio with loans on certain platforms and uncertainty in repayment sources. In 2010, the Company will, pursuant to the arrangement for the Second Transformation and through the entire-process optimization for credit risk management, carry out plans for consolidation of the foundation of credit risk management, underline policy guidance, optimize credit structure, and enhance management methods and tools, so as to ensure the continuous stability of assets quality.

2. *Trend of NIM changes*

The effect of the Central Bank's interest rate cut in the second half of 2008 was fully displayed in 2009 with the re-pricing of the Company's assets. The market interest rate remained low under a relatively loose monetary control, and competition on interest rate for deposits and loans intensified while the Company's NIM declined significantly, posing a noteworthy impact on the net interest income. To cope with the significant decline of NIM, the Company has proactively taken the following measures: (1) deepening adjustment on assets/liabilities structure while minimizing decline of net interest income on condition that capital restriction and risk requirements are satisfied; (2) deepening adjustment to operating strategies, optimizing business structure, improving retail business and proportion of SME business, actively promoting profitability of intermediate business; (3) reinforcing cost management, i.e. exercising strict control over administrative expenses while ensuring expenses on business promotion and network construction.

3. *Net non-interest income*

It is one of the Company's key operating strategies to raise the proportion of net non-interest income. From a vertical perspective, the Company's net non-interest income has been increasing annually with its percentage in the net operating income increasing steadily. Facing such unfavourable conditions as declining import & export, recession in the capital market, growing pressure on credit direction and limited space for product innovation in 2009, we have comprehensively exploited for new products and new channels and managed to overcome the external adverse influences with superior services and proactive promoting activities, our net non-interest income broke through RMB10 billion, with a remarkable increase in the proportion of net non-interest income.

4. *Cost control*

Facing the various unfavourable influences of internal and external environment in 2009, the Company placed strong emphasis on cost control while striving to enhance the cost utilization efficiency and accelerating the transformation into a capital and resource intensive operating model. In 2009, we have taken all possible measures to implement our cost control policy of "encouraging the credit granting to some industry sectors while discouraging that to others". We have strengthened the rigid restrictions on budget. On one hand, we guaranteed normal marketing expenses and reasonable spending in network construction and staff training, on the other hand, we restricted administrative expenses, achieving satisfactory results in control over labour costs, conference costs, travelling costs, advertisement costs, business promotion costs and entertainment costs.

5.11 Outlook and measures

In 2010, despite that the global economy and financial market has entered into the post-crisis era, the situation will remain tough and subject to great changes. In an international perspective, the aftermath of the global financial crisis will linger on, the financial system will remain vulnerable, and the fundamentals of global economic recovery are still unsound. Factors such as the phase-out of economic stimulus packages, the fluctuations in bulk commodity prices and the capital market, the hovering high unemployment rate and the revival of trade protectionism all pose risks which may hinder the recovery of the global economy. Therefore, the road to full economic recovery will be a slow and intricate process. In a domestic perspective, external demand remains weak, the expanded consumer demand is not firmly based, social investments need to be expedited and the momentum of internal growth is weak. There exist certain deep-rooted imbalances, especially the structural imbalances are still acute, and inflationary expectation is rising. All the above factors have put the formulation of macroeconomic control policies in a dilemma.

Under the current situation, in spite of the grim challenges to our operation and management, many new opportunities emerged, such as the increasing demand for corporate loans, the higher residential consumption, the deepening structural transformation process, the fast growth of direct financing, an accelerated shifts of loans to target industries and the expedited cultivation of the emerging strategic industries.

Facing the opportunities and challenges under the new circumstances, the Company will work towards its mission to become the best commercial bank in China with international competitive edges. In light of the principle guideline of "Response to crises, innovate for changes, transform once again for achievements", the Company will further adjust its business strategies, accelerate the transformation of business mode and endeavour to transform itself once again, aiming to realize its main objectives of lowering capital consumption, increasing loan rates, controlling financial cost, increasing the number of high-value costumers and ensuring that risks are under control. The Bank will also hasten its steps towards centralized management and promote the transformation of the Company's business operation mode from extensive outreach style to internal concentration style. Based on the current operating environment, the Company anticipates that total deposits from customers and total loans to customers will reach RMB1,837.5 billion and RMB1,352.5 billion respectively as at the end of 2010. The Company intends to implement the following measures in 2010: (1) optimize the asset and liability structure, enhance overall budget control and implement strict financial management, so as to effectively and steadily increase profitability; (2) improve the pricing ability for personal loans, expand the wealth management business, accelerate transformation of the credit card business, spare no efforts to step up cost potential of retail bank and to integrate resources in a bid to increase profit contribution from retail banking; (3) expedite innovation in the corporate business, focus on providing financing for strategic emerging industries, pillar industries, domestic demand oriented industries, industries supported by the state vitalization programs, SMEs and green industries. More efforts will be applied to expand low-cost corporate loans and drive the growth of fee-based business especially the corporate intermediary business, effectively integrate marketing resources targeted at corporate lending and proactively cultivate the operating features of wholesale banking; (4) enhance the awareness of risk prevention, strengthen the management of credit risk, liquidity risk, market risk, operation risk, reputation risk and internal control and compliance, and place high regard to the implementation of the rules of Basel II; (5) optimize human resources deployment, further improve the incentive scheme and appraisal mechanism for employees, with a view to fully developing employees' potential and improving their work efficiency; (6) promote the concept of customer-oriented servicing and improve service quality; (7) gave full gear to the task of workflow optimization and to uphold our IT competitive edges; (8) continue to ensure the successful progress of the integration with WLB, and steadily make inroads into internationalized and integrated operation.

Building a harmonious society together

CMB has always put much emphasis on the performance of its corporate social responsibility. By adhering to the principle of "Ploughing back to the society", the Bank has made the fulfilment of social responsibility as an integral part of its long-term development strategy, conducted its banking operations while performing its social responsibilities, and continued to reward its shareholders, clients, staff and the society. In recent years, CMB has been increasing its financial support to green finance projects, small and medium enterprises and other projects associated with the people's livelihood such as education and medical services. Our unremitting efforts in poverty relief in designated areas in Yunnan, as well as our active participation in disaster relief, educational donation and the sponsorship of cultural and sports events have won applause from all walks of life.

Responsibility

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

	31 December 2008		Changes in the reporting period			31 December 2009	
	Quantity (share)	Percentage (%)	Shares subject to trading moratorium converted into shares not subject to trading Moratorium (share)	Bonus share issue (share)	Conversion from convertible bonds (share)	Quantity (share)	Percentage (%)
I. Shares which are subject to trading moratorium	4,799,233,254	32.63	**-4,799,233,254**	**–**	**–**	**0**	**0**
1. State-owned shares	–	–	–	–	–	–	–
2. Shares held by state-owned legal persons	4,799,233,254	32.63	**-4,799,233,254**	**–**	**–**	**0**	**0**
3. Other domestic shareholdings	–	–	–	–	–	–	–
Of which: shares held by domestic legal persons	–	–	–	–	–	–	–
Shares held by domestic natural persons	–	–	–	–	–	–	–
4. Overseas shareholdings	–	–	–	–	–	–	–
Of which: shares held by overseas legal persons	–	–	–	–	–	–	–
Shares held by overseas natural persons	–	–	–	–	–	–	–
II. Shares which are not subject to trading moratorium	9,907,951,420	67.37	**4,799,233,254**	**4,412,161,148**	**144,194**	**19,119,490,016**	**100.00**
1. Common shares in RMB (A Shares)	7,245,951,420	49.27	**4,799,233,254**	**3,613,561,148**	**144,194**	**15,658,890,016**	**81.90**
2. Foreign shares listed domestically	–	–	–	–	–	–	–
3. Foreign shares listed overseas (H Shares)	2,662,000,000	18.10	**–**	**798,600,000**	**–**	**3,460,600,000**	**18.10**
4. Others	–	–	–	–	–	–	–
III. Total shares	14,707,184,674	100.00	**0**	**4,412,161,148**	**144,194**	**19,119,490,016**	**100.00**

As at the end of the reporting period, the Company had a total of 637,674 shareholders, including 44,728 holders of H Shares and 592,946 holders of A Shares, and all shares held by A shareholders are not subject to trading moratorium.

Based on the public information available to the Company and its directors, as at 31 December 2009, the Company had met the public floating requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the "Hong Kong Listing Rules").

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

Serial No.	Name of shareholder	Type of shareholder	Shares held at the end of the period (share)	Percentage of total share capital %	Type of shares	Changes in the reporting period (share)[2]	Number of Shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd.[1]	/	3,405,178,573	17.81	H shares	789,545,059	0	–
2	China Merchants Steam Navigation Company Ltd.	State-owned legal persons	2,364,586,372	12.37	A Shares not subject to trading moratorium	545,865,568	0	0
3	China Ocean Shipping (Group) Company	State-owned legal persons	1,136,407,218	5.94	A Shares not subject to trading moratorium	188,858,550	0	0
4	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal persons	563,529,636	2.95	A Shares not subject to trading moratorium	130,045,301	0	0
5	Guangzhou Maritime Transport (Group) Company Ltd.	State-owned legal persons	558,661,800	2.92	A Shares not subject to trading moratorium	-6,697,790	0	0
6	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal persons	492,330,629	2.58	A Shares not subject to trading moratorium	113,614,761	0	0
7	China Communications Construction Company Ltd.	State-owned legal persons	339,332,247	1.77	A Shares not subject to trading moratorium	78,307,442	0	0
8	Shanghai Automotive Industry Corporation	State-owned legal persons	325,734,495	1.70	A Shares not subject to trading moratorium	75,169,499	0	2,210,000
9	CNOOC Investment Co., Ltd.	State-owned legal persons	266,896,591	1.40	A Shares not subject to trading moratorium	61,591,521	0	0
10	Qinhuangdao Port Group Company Ltd.	State-owned legal persons	228,735,204	1.20	A Shares not subject to trading moratorium	52,785,047	0	0
10	China Shipping (Group) Company	State-owned legal persons	228,735,204	1.20	A Shares not subject to trading moratorium	52,785,047	0	0
10	Shandong State-owned Assets Investment Holdings Company Ltd.	State-owned legal persons	228,735,204	1.20	A Shares not subject to trading moratorium	52,785,047	0	0
10	Guangdong Provincial Highways Administration Bureau	State-owned	228,735,204	1.20	A Shares not subject to trading moratorium	52,785,047	0	0

Notes:

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

(2) As the 2008 Profit Appropriation Scheme was implemented, the Company increased its shareholding in the proportion of an issue of 3 bonus shares for every 10 shares on 3 July 2009. China Merchants Steam Navigation Company Ltd. increased its shareholding by 191,790 shares before the ex-rights day set for cash dividend payment and bonus share issue by the Company in 2008; China Ocean Shipping (Group) Company decreased its shareholding by 95,406,051 shares after the ex-rights day set for cash dividend payment and bonus share issue by the Company in 2008; Guangzhou Maritime Transport (Group) Company Ltd. decreased its shareholding of 176,305,667 shares after the ex-rights day set for cash dividend payment and bonus share issue by the Company in 2008.

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

(4) Qinhuangdao Port Group Company Ltd. has been renamed as Hebei Port Group Company Ltd.

6.3 Details of changes in shares subject to trading moratorium

Serial No.	Name of shareholder	Number of shares held which are subject to trading moratorium at the beginning of the period (share)	Number of shares released from trading moratorium during the reporting period (share)	Increase in the number of shares held which are subject to trading moratorium during the reporting period (share)	Number of shares held which are subject to trading moratorium at the end of the period (share)	Reasons for trading moratorium	Date on which the shares were released from trading moratorium Note 2
1	China Merchants Steam Navigation Company Ltd.	1,781,677,633	1,781,677,633	0	0	Note 1	2 March 2009
2	China Ocean Shipping (Group) Company	947,548,668	947,548,668	0	0	Note 1	2 March 2009
3	Guangzhou Maritime Transport (Group) Company Ltd.	565,359,590	565,359,590	0	0	Note 1	2 March 2009
4	Shenzhen Yan Qing Investment and Development Company Ltd.	433,484,335	433,484,335	0	0	Note 1	2 March 2009
5	Shenzhen Chu Yuan Investment and Development Company Ltd.	378,715,868	378,715,868	0	0	Note 1	2 March 2009
6	China Communications Construction Company Ltd.	261,024,805	261,024,805	0	0	Note 1	2 March 2009
7	China Shipping (Group) Company	175,950,157	175,950,157	0	0	Note 1	2 March 2009
8	CCCC Guangzhou Dredging Co., Ltd.	154,771,402	154,771,402	0	0	Note 1	2 March 2009
9	Shanghai Shipping (Group) Company	51,024,331	51,024,331	0	0	Note 1	2 March 2009
10	CCCC Fourth Harbour Engineering Co., Ltd.	21,067,429	21,067,429	0	0	Note 1	2 March 2009
11	CCCC Shanghai Dredging Co., Ltd.	16,888,294	16,888,294	0	0	Note 1	2 March 2009
12	Zhenhua Engineering (Shenzhen) Co. Ltd.	8,794,902	8,794,902	0	0	Note 1	2 March 2009
13	CCCC Third Navigational Engineering Design Institute Co. Ltd.	2,925,840	2,925,840	0	0	Note 1	2 March 2009
	Total	4,799,233,254	4,799,233,254	0	0		

Notes:

(1) Share reform.

(2) The circulated shares subject to trading moratorium set out above should be released on 27 February 2009, which was also the date on which an extraordinary general meeting of the Company was held, such that the actual circulation date was postponed to the next trading day, being 2 March 2009.

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

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

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant share held in issue (%)	Percentage of all issued share (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	3,420,446,637	1	21.84	17.90 *
China Merchants Steam Navigation Co. Ltd.	A	Long	Beneficial owner	2,364,586,372	1	15.10	12.37
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Interest of controlled corporation	1,055,860,265	1	6.74	5.52
Shenzhen Yan Qing Investment Development Co. Ltd.	A	Long	Beneficial owner	563,529,636	1		
		Long	Interest of controlled corporation	492,330,629	1		
				1,055,860,265		6.74	5.52
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	1,231,813,269#		7.86	6.44
China Shipping (Group) Company	A	Long	Beneficial owner	228,735,204			
		Long	Interest of controlled corporation	653,864,064#			
				882,599,268#	2	5.63	4.62
JPMorgan Chase & Co.	H	Long	Beneficial owner	44,130,605			
		Long	Investment manager	260,619,846			
		Long	Custodian corporation/ approved lending agent	147,610,259			
				452,360,710	3	13.07	2.37
		Short	Beneficial owner	23,413,185	3	0.68	0.12
BlackRock, Inc.	H	Long	Interest of controlled corporation	265,308,695	4	7.67	1.39
		Short	Interest of controlled corporation	711,000	4	0.02	0.00

VI Share Capital Structure and Shareholder Base

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant share held in issue (%)	Percentage of all issued share (%)
UBS AG	H	Long	Beneficial owner	111,618,400			
		Long	Person having a security interest in share	13,000			
		Long	Interest of controlled corporation	82,823,796	5		
				194,455,196		5.62	1.02
		Short	Beneficial owner	12,146,991			
		Short	Person having a security interest in share	21,777,884			
		Short	Interest of controlled corporation	27,639,606	5		
				61,564,481		1.78	0.32
Mirae Asset Global Investments (Hong Kong) Limited	H	Long	Investment manager	174,522,550		5.04	0.91

* As at 31 December 2009, China Merchants Group Ltd. indirectly held an aggregate of 18.10% of the total issued shares of the Company, which consists of 17.90% of the A shares of the Company and 0.20% of the H shares of the Company respectively.

\# The above numbers of shares were recorded in the interests disclosure forms completed by the relevant substantial shareholders before 31 December 2009. During the period from the date on which the respective substantial shareholders submitted the said forms up to 31 December 2009, there were some updates to the aforesaid numbers of shares, but the changes did not result in a disclosure obligation in accordance with SFO.

Notes:

(1) China Merchants Group Ltd. held interest in a total of 3,420,446,637 A shares (Long position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(1.1) China Merchants Steam Navigation Co. Ltd. held 2,364,586,372 A shares (Long position) in the Company. China Merchants Steam Navigation Co. Ltd. was a wholly-owned subsidiary of China Merchants Group Ltd..

(1.2) Shenzhen Yan Qing Investment Development Co. Ltd. held 563,529,636 A shares (Long position) in the Company. Shenzhen Yan Qing Investment Development Co. Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd. and China Merchants Group Ltd. respectively. China Merchants Finance Investment Holdings Co. Ltd. was owned as to 90% and 10% by China Merchants Group Ltd. and China Merchants Steam Navigation Co. Ltd., referred to in (1.1) above, respectively.

(1.3) Shenzhen Chu Yuan Investment Development Co. Ltd. held 492,330,629 A shares (Long position) in the Company. Shenzhen Chu Yuan Investment Development Co. Ltd. was owned as to 50% by each of China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and Shenzhen Yan Qing Investment Development Co. Ltd., referred to in (1.2) above, respectively.

(2) China Shipping (Group) Company held interest in a total of 882,599,268 A shares (Long position) in the Company by virtue of its direct interest in 228,735,204 A shares (Long position) in the Company and interest in 653,864,064 A shares (Long position) in the Company by virtue of its wholly-owned subsidiaries, which held direct interests in the Company:

(2.1) Guangzhou Maritime Transport (Group) Company Limited directly held 596,864,064 A shares (Long position) in the Company; and

(2.2) Shanghai Shipping (Group) Company directly held 57,000,000 A shares (Long position) in the Company.

(3) JPMorgan Chase & Co. held interest in a total of 452,360,710 H shares (Long position) and 23,413,185 H shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(3.1) JPMorgan Chase Bank, N.A. held 167,697,159 H shares (Long position) in the Company. JPMorgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co..

(3.2) J.P. Morgan Whitefriars Inc. held 30,851,535 H shares (Long position) and 10,117,115 H shares (Short position) in the Company. J.P. Morgan Whitefriars Inc. was a wholly-owned subsidiary of J.P. Morgan Overseas Capital Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Inc.. JPMorgan Chase Bank, N.A., referred to in (3.1) above, owned 100% interest in J.P. Morgan International Inc..

(3.3) J.P. Morgan Securities Ltd. held 13,274,070 H shares (Long position) and 13,040,070 H shares (Short position) in the Company. J.P. Morgan Securities Ltd. was owned as to 98.95% by J.P. Morgan Chase International Holdings, which in turn was wholly-owned by J.P. Morgan Chase (UK) Holdings Limited. J.P. Morgan Chase (UK) Holdings Limited was wholly-owned by J.P. Morgan Capital Holdings Limited, which in turn was wholly-owned by J.P. Morgan International Finance Limited, referred to in (3.2) above.

(3.4) J.P. Morgan Structured Products B.V. held 5,000 H shares (Long position) and 256,000 H shares (Short position) in the Company. J.P. Morgan Structured Products B.V. was wholly-owned by J.P. Morgan International Finance Limited, referred to in (3.2) above.

(3.5) JF Asset Management Limited, JPMorgan Asset Management (Taiwan) Limited, JPMorgan Asset Management (Singapore) Limited and JPMorgan Asset Management (Japan) Limited held 3,000,000 H shares (Long position), 4,531,900 H shares (Long position), 2,060,900 H shares (Long position) and 309,500 H shares (Long position) in the Company respectively.

All the above companies were wholly-owned by JPMorgan Asset Management (Asia) Inc. JPMorgan Asset Management (Asia) Inc. was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., which in turn was wholly-owned by JPMorgan Chase & Co..

(3.6) J.P. Morgan Investment Management Inc. held 72,982,047 H shares (Long position) in the Company. J.P. Morgan Investment Management Inc. was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., referred to in (3.5) above.

(3.7) JPMorgan Asset Management (UK) Limited held 157,648,599 H shares (Long position) in the Company. JPMorgan Asset Management (UK) Limited was wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, which in turn was wholly-owned by JPMorgan Asset Management International Limited, which was a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., referred to in (3.5) above.

The entire interest of JPMorgan Chase & Co. in the Company included a lending pool of 147,610,259 H shares (Long position). Besides, 14,970,059 H shares (Long position) and 10,373,115 H shares (Short position) were held through derivatives as follows:

5,000 H shares (Long position) and 256,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
14,965,059 H shares (Long position) and 10,117,115 H shares (Short position)	–	through physically settled derivatives (off exchange)

(4) BlackRock, Inc. held interest in a total of 265,308,695 H shares (Long position) and 711,000 H shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(4.1) BlackRock Investment Management, LLC held 1,634,748 H shares (Long position) in the Company. BlackRock Investment Management, LLC was a wholly-owned subsidiary of Trident Merger, LLC, which in turn was a wholly-owned subsidiary of BlackRock, Inc.

(4.2) BlackRock Fund Advisors held 213,212,249 H shares (Long position) in the Company. BlackRock Fund Advisors was wholly-owned by BlackRock Institutional Trust Company N.A., the latter was deemed to hold interest in 213,212,249 H shares (Long position). BlackRock Institutional Trust Company N.A. was deemed to hold interest and direct interest in a total of 233,873,249 H shares (Long position) and hold direct interest in 711,000 H shares (Short position) in the Company. BlackRock Institutional Trust Company N.A. was a wholly-owned subsidiary of BlackRock Delaware Holdings, Inc., which in turn was wholly-owned by BlackRock Holdco 6 LLC. BlackRock Holdco 6 LLC was wholly-owned by BlackRock Holdco 4 LLC, which in turn was wholly-owned by BlackRock Financial Management, Inc. BlackRock Financial Management, Inc. was a wholly-owned subsidiary of BlackRock Holdco 2, Inc., which in turn was wholly-owned by BlackRock, Inc.

(4.3) BlackRock Advisors UK Limited and BlackRock International Ltd held 28,329,900 H shares (Long position) and 1,132,798 H shares (Long position) in the Company respectively. Both of them were wholly-owned subsidiaries of BlackRock Group Limited. BlackRock Group Limited was wholly-owned by BR Jersey International LP, which in turn was wholly-owned by BlackRock International Holdings, Inc. BlackRock International Holdings, Inc. was a wholly-owned subsidiary of BlackRock Advisors Holdings, Inc., which in turn was wholly-owned by BlackRock Financial Management, Inc., referred to in (4.2) above.

(4.4) BlackRock Fund Managers Ltd. held 338,000 H shares (Long position) in the Company. BlackRock Fund Managers Ltd was wholly-owned by BlackRock Investment Management (UK) Ltd., which was in turn wholly-owned by BlackRock Group Limited, referred to in (4.3) above.

Among the entire interest of BlackRock, Inc. in the Company, 619,500 H shares (Long position) were held through cash settled derivatives (on exchange).

(5) UBS AG held interest in a total of 82,823,796 H shares (Long position) and 27,639,606 H shares (Short position) in the Company by virtue of its 100% control over the following corporations, which held direct interests in the Company:

	No. of shares	
Name of controlled Corporation	**Long position**	**Short position**
UBS Fund Management (Switzerland) AG	5,183,218	–
UBS Global Asset Management (Americas) Inc.	6,148,700	–
UBS Global Asset Management (Canada) Co.	1,298,050	–
UBS Global Asset Management (Hong Kong) Ltd	8,485,420	–
UBS Global Asset Management (Japan) Ltd	3,896,403	–
UBS Global Asset Management (Singapore) Ltd	16,234,778	–
UBS Global Asset Management Trust Company	213,250	–
UBS Global Asset Management (UK) Limited	19,657,368	–
UBS Securities LLC	21,701,409	21,701,409
UBS Financial Services Inc.	5,200	–
UBS Fund Services (Luxembourg) SA	–	5,938,197

Among the entire interest of UBS AG in the Company, 1,011,092 H shares (Long position) and 5,674,319 H shares (Short position) were held through derivatives as follows:

804,500 H shares (Long position) and 187,400 H shares (Short position)	–	through physically settled derivatives (on exchange)
74,000 H shares (Long Position) and 117,100 H shares (Short position)	–	through cash settled derivatives (on exchange)
132,592 H shares (Long position) and 2,026,456 H shares (Short position)	–	through physically settled derivatives (off exchange)
3,343,363 H shares (Short position)	–	through cash settled derivatives (off exchange)

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

6.5 Undertakings associated with the share reform

The Company implemented a share reform (the "Conversion Scheme") on 27 February 2006. The Conversion Scheme stated the undertakings of the shareholders whose shares were subject to trading moratorium were as follows: shareholders without put obligation undertook not to trade or transfer their shares within 24 months from 27 February 2006; shareholders with put obligation undertook not to trade or transfer their shares within 36 months from 27 February 2006. In particular, China Merchants Steam Navigation Co., Ltd., Shenzhen Yan Qing Investment and Development Co., Ltd. and Shenzhen Chu Yuan Investment and Development Co., Ltd. undertook not to trade or transfer their shares before the share price of the Company first reached RMB8.48 or above (after excluding rights and dividend depending on circumstances) in the 12 months after expiry of the aforesaid 36-month lock-up period. The aforesaid shareholders have performed their undertakings (as mentioned above) in 2009.

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

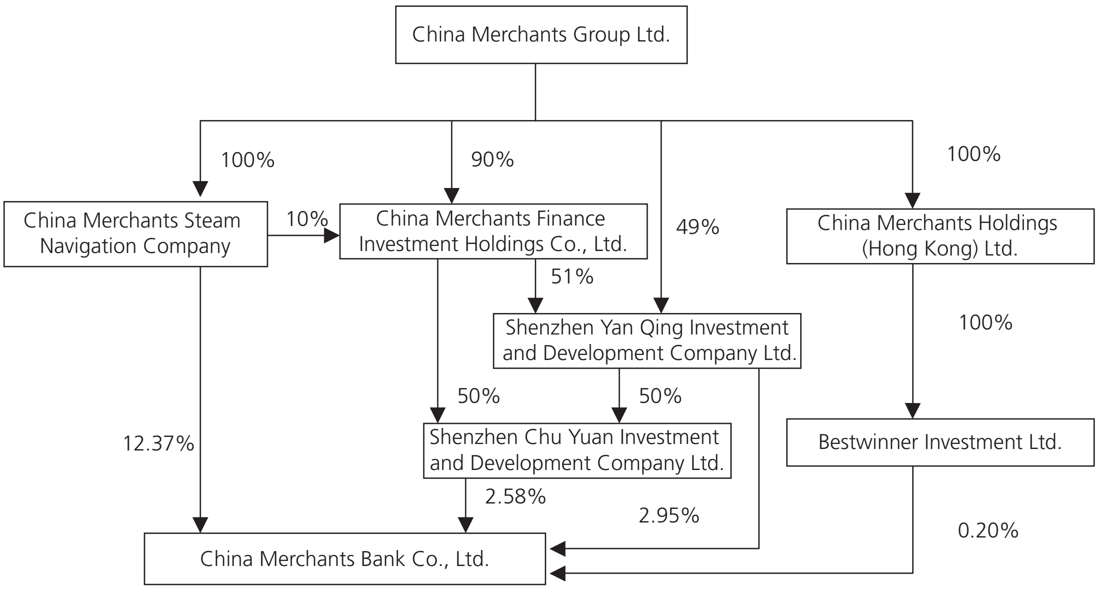
The H-Share Appreciation Rights Scheme for the Senior Management of the Company was approved by the shareholders of the Company at the 2007 First Extraordinary General Meeting held on 22 October 2007. Details of the Scheme were disclosed in the relevant announcements published on the websites of the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

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

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

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

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



Note: As at 31 December 2009, China Merchants Group Ltd. indirectly held an aggregate of 18.10% of the total shares of the Company, in which the A shares it held accounted for 17.90% of that of the Company and the H shares it held accounted for 0.20% of that of the Company.

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

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

6.8 Particulars on share issuance and listing

Particulars on all share issuance and listing by the Company up to the end of the reporting period

1. A share issuance

As approved by China Securities Regulatory Commission ("CSRC") document Zheng Jian Fa Xing Zi【2002】No. 33, the Company initially publicly offered 1.5 billion common shares in RMB (A Shares) at an issue price of RMB7.30 per share on Shanghai Stock Exchange on 27 March 2002 by adopting a combination of offline placement to legal person investors and online placement to general public investors through book-building bid-subscription process. On 9 April 2002, the A shares of the Company were listed and traded on Shanghai Stock Exchange.

2. *H share issuance*

Upon approval by CSRC and the SEHK, the Company issued 2.2 billion overseas listed foreign currency denominated shares (H shares) on 22 September 2006 at HK$8.55 per share. Our state-owned shareholders reduced their shareholdings by transferring 220 million state-owned shares to the National Social Security Fund for conversion into H shares. The total H shares issued by the Company amounted to 2.42 billion. Dealings in H shares on SEHK commenced on 22 September 2006 (stock code: 03968).

On 27 September 2006, in response to the request of the joint book runners and major underwriters to exercise the over-allotment option of the H Share Issue granted by us, the Company issued an additional 220 million H Shares at HK$8.55 per share. Due to the exercise of the over-allotment option, the state-owned shareholders of the Company further reduced their shareholdings by transferring 22 million state-owned shares to the National Social Security Fund for conversion into H shares. Trading of the abovementioned 242,000,000 H shares commenced on SEHK on 5 October 2006. As a result of the exercise of the over-allotment option, the total number of H Shares issued by the Company amounted to 2,662,000,000.

3. *Shares held by staff*

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

6.9 Issuance and listing of convertible bonds

Upon approval of CSRC through its Zheng Jian Fa Xing Zi【2004】No. 155 document, the Company issued 65 million convertible bonds on 10 November 2004 with a face value of RMB100 each, totaling RMB6.5 billion. Upon approval of Shanghai Stock Exchange through its Shang Zheng Shang Zi【2004】No.165 document, the 65 million convertible bonds of the Company were listed and traded on 29 November 2004 under the name of "CMB Convertible Bonds" (bond code: 110036) on Shanghai Stock Exchange. The validity term for the listed convertible bonds of the Company was from 29 November 2004 to 10 November 2009.

The unconverted convertible bonds of the Company were less than RMB30 million as at 25 September 2006, and pursuant to relevant regulations, trading of "CMB Convertible Bonds" was suspended since 29 September 2006.

Price adjustment of convertible bonds

On 20 June 2005, pursuant to the terms of issuance set out in the Prospectus of "CMB Convertible Bonds" and the relevant rules and regulations on the issuance of convertible bonds by CSRC, the Company implemented the Profit Appropriation Scheme for 2004 in which RMB1.1 (tax included) in cash was distributed for every 10 shares held. And the capital reserve was converted into share capital in the proportion of 5 shares for every 10 shares held. Accordingly, the conversion price of "CMB Convertible Bonds" was adjusted from RMB9.34 per share to RMB6.23per share (details of which were set out in the Special Indicative Announcement Regarding the Adjustment to the Conversion Price of Convertible Bonds of China Merchants Bank Co., Ltd. published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 14 June 2005).

The Company implemented the Share Reform on 24 February 2006, pursuant to which capital reserve was converted into share capital in the proportion of 0.8589 bonus shares for every 10 shares held, and the conversion price of "CMB Convertible Bonds" was adjusted downward from RMB6.23 per share to RMB5.74 per share accordingly (details of which were set out in the Special Indicative Announcement Regarding the Adjustment to the Conversion Price of Convertible Bonds of China Merchants Bank Co., Ltd. published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 22 February 2006).

On 3 July 2009, the Company implemented the Profit Appropriation Scheme for 2008, pursuant to which RMB1 (tax included) in cash was distributed for every 10 shares held together with a bonus issue of 3 bonus shares for every 10 shares held. Accordingly, the conversion price of "CMB Convertible Bonds" was adjusted from RMB5.74 per share to RMB4.42 per share (details of which were set out in the Special Indicative Announcement on Adjustment to the Conversion Price and Resumption of Conversion of Convertible Bonds of China Merchants Bank Co., Ltd. published on *China Securities Journal, Shanghai Securities News* and *Securities Times* on 29 June 2009).

Conversion and delisting of convertible bonds

The "CMB convertible bonds" could be converted into shares starting 10 May 2005. As at 10 November 2009, "CMB convertible bonds" (110036) amounting to RMB6,498,835,000 were converted into shares of "CMB" (600036). The number of converted shares (including shares enlarged by capital reserve) were 1,043,826,587. The amount of convertible bonds was RMB1,828,000 at the beginning of the reporting period. The number of converted shares was 144,194 amounting to RMB663,000 during the reporting period. The outstanding "CMB convertible bonds" amounted to RMB1,165,000, representing 0.02% of the total issued amount of the CMB convertible bonds. The company's convertible bonds expired on 10 November 2009 and the outstanding convertible bonds were delisted after payment of principal and interest accrued thereon as they fell due (details of which were set out in the announcement published by China Merchants Bank Co., Ltd on 12 November 2009 on *China Securities Journal, Shanghai Securities News* and *Securities Times* in connection with "The payment of principal and interest on and delisting of the convertible bonds of China Merchants Bank Co., Ltd.").

6.10 Issuance of subordinated debts

Issuance of subordinated debts in 2004

Pursuant to Yin Jian Fu【2004】No. 36 document, "Approval from the CBRC on the Issuance of Subordinated Debts by China Merchants Bank", the Company issued RMB3.5 billion subordinated debts, of which, China Pacific Insurance (Group) Co., Ltd. subscribed RMB2.5 billion subordinated debts in March 2004 at a fixed annual rate of 4.59 % for a term of 5 years and 1 month, with the interest payable once a year. China Ping An Life Insurance Co., Ltd. and Tai Kang Life Insurance Co., Ltd. subscribed RMB0.7 billion and RMB0.3 billion subordinated debts in June 2004 respectively at a fixed annual rate of 5.10% for a term of 5 years and 1 month, with the interest payable once a year.

Issuance of subordinated debts in 2008

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

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

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

The benchmark interest rate R for Type III ten-year floating rate debts is the one-year renminbi fixed deposit interest rate announced by The People's Bank of China (PBOC). The benchmark interest rate for the first interest-accruing period will be the one-year renminbi fixed deposit interest rate announced by The People's Bank of China and effective from 21 December 2007. The benchmark interest rate for the floating rate debts for the first interest-accruing period is 4.14%.

7.1 Directors, supervisors and senior management

Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the year	Shareholding at the end of the year	Aggregate remunerations before tax received from the Company during the reporting period(1) (RMB ten thousand)	Remunerations paid by shareholders' companies or other related companies
Qin Xiao	Male	1947.4	Chairman & Non-Executive Director	2007.6-2010.6	0	0	0	Yes
Wei Jiafu	Male	1949.12	Vice Chairman & Non-Executive Director	2007.6-2010.6	0	0	0	Yes
Fu Yuning	Male	1957.3	Non-Executive Director	2007.6-2010.6	0	0	0	Yes
Li Yinquan	Male	1955.4	Non-Executive Director	2007.6-2010.6	0	0	0	Yes
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2007.6-2010.6	0	0	0	Yes
Ding An Hua, Edward	Male	1964.4	Non-Executive Director	2007.6-2010.6	0	0	0	Yes
Sun Yueying	Female	1958.6	Non-Executive Director	2007.6-2010.6	0	0	0	Yes
Wang Daxiong	Male	1960.12	Non-Executive Director	2007.6-2010.6	0	0	0	Yes
Fu Junyuan	Male	1961.5	Non-Executive Director	2007.6-2010.6	0	0	0	Yes
Ma Weihua	Male	1948.6	Executive Director, President and Chief Executive Officer	2007.6-2010.6	0	0	530.60	No
Zhang Guanghua	Male	1957.3	Executive Director and Executive Vice President	2007.6-2010.6	0	0	267.40	No
Li Hao	Male	1959.3	Executive Director, Executive Vice President and Chief Financial Officer	2007.6-2010.6	0	0	265.20	No
Wu Jiesi	Male	1951.10	Independent Non-Executive Director	2007.6-2010.6	0	0	30.00	No
Yi Xiqun	Male	1947.8	Independent Non-Executive Director	2008.1-2010.6	0	0	30.00	No
Yan Lan	Female	1957.1	Independent Non-Executive Director	2007.6-2010.6	0	0	30.00	No
Chow Kwong Fai, Edward	Male	1952.8	Independent Non-Executive Director	2007.6-2010.6	0	0	30.00	No
Liu Yongzhang	Male	1956.12	Independent Non-Executive Director	2007.6-2010.6	0	0	30.00	No
Liu Hongxia	Female	1963.9	Independent Non-Executive Director	2007.6-2010.6	0	0	30.00	No
Shi Jiliang	Male	1945.2	Chairman of Board of Supervisors and External Supervisor	2007.6-2010.6	0	0	60.00	No
Zhu Genlin	Male	1955.9	Shareholder Supervisor	2007.6-2010.6	0	0	0	Yes
Li Jiangning	Male	1959.4	Shareholder Supervisor	2007.6-2010.6	0	0	0	Yes
Dong Xiande	Male	1947.2	Shareholder Supervisor	2007.6-2010.6	0	0	0	Yes
Shao Ruiqing	Male	1957.9	External Supervisor	2007.6-2010.6	0	0	30.00	No
Shi Shunhua	Male	1962.12	Employee Supervisor	2007.6-2010.6	0	0	228.90	No
Yang Zongjian	Male	1957.4	Employee Supervisor	2007.6-2010.6	0	0	168.90	No
Zhou Song	Male	1972.4	Employee Supervisor	2008.8-2010.6	33,500	43,550	155.90	No
Tang Zhihong	Male	1960.3	Executive Vice President	2007.6-2010.6	0	0	267.40	No
Yin Fenglan	Female	1953.7	Executive Vice President	2007.6-2010.6	0	0	267.40	No
Ding Wei	Male	1957.5	Executive Vice President	2008.4-2010.6	0	0	265.60	No
Zhu Qi	Male	1960.7	Executive Vice President	2008.11-2010.6	0	0	0	Yes
Tang Xiaoqing	Male	1954.8	Secretary of Party Discipline Committee	2008.12 up to now	0	0	267.40	No
Wang Qingbin	Male	1956.12	Executive Assistant President	2009.5 up to now	0	0	238.70	No
Xu Lianfeng	Male	1953.2	Chief Technology Officer	2001.11 up to now	0	0	160.00	No
Fan Peng	Male	1953.2	Chief Audit Officer	2007.6-2010.6	0	0	162.10	No
Lan Qi	Male	1956.6	Secretary of Board of Directors	2007.6-2010.6	0	0	160.00	No

Notes: (1) The aggregate remunerations before tax as shown in the above table exclude the 2009 performance bonus for the full-time executive directors and senior management of the Company. The payment of 2009 performance bonus is subject to the verification and approval by the Board of Directors, and the Company will make a relevant disclosure in due time.

(2) The shares held by Mr. Zhou Song during the reporting period were A Shares of the Company, and his shareholding increased during the reporting period due to a bonus issue of 3 bonus shares for every 10 shares held pursuant to the Profit Appropriations Scheme for 2008;

(3) Mr. Zhu Qi's remuneration was paid by the Company's subsidiary WLB.

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

Name	Name of Company	Title	Term of office
Qin Xiao	China Merchants Group Ltd.	Chairman	From January 2001 up to now
Wei Jiafu	China Ocean Shipping (Group) Company	President	From June 2000 up to now
Fu Yuning	China Merchants Group Ltd.	President	From April 2000 up to now
Li Yinquan	China Merchants Group Ltd.	Vice President & Chief Financial Officer	From July 2002 up to now
Hong Xiaoyuan	China Merchants Finance Holdings Co., Ltd.	General Manager	From May 2007 up to now
Sun Yueying	China Ocean Shipping (Group) Company	Chief Accountant	From December 2000 up to now
Wang Daxiong	China Shipping (Group) Company	Vice President & Chief Accountant	From March 2001 up to now
Fu Junyuan	China Communications Construction Co., Ltd	Executive Director & Chief Financial Officer	From September 2006 up to now
Zhu Genlin	Shanghai Automotive Industry Corporation (Group)	Chief Financial Officer	From February 2002 up to now
Li Jiangning	Shandong State-owned Assets Investment Holdings Co., Ltd.	Vice President	From December 2005 up to now
Dong Xiande [note]	Qinhuangdao Port Group Co., Ltd.	–	–

Note: Mr. Dong Xiande was previously a director & chief accountant of Qinhuangdao Port Group Company Ltd.. He retired in July 2007. Qinhuangdao Port Group Company Ltd. was renamed as Hebei Port Group Company Ltd..

7.3 Major working experiences of directors, supervisors and senior management and details of their part-time jobs

Directors

Mr. Qin Xiao, Chairman and non-executive director of the Company. He has been the Chairman of the Company since April 2001. Dr. Qin obtained a doctorate degree in economics from Cambridge University. He is a member of the Eleventh National Committee of the Chinese People's Political Consultative Conference (CPPCC), a director of the Association for Relations Across the Taiwan Strait, the honorary president of the Hong Kong Chinese Enterprises Association, an adjunct professor of the School of Economics & Management at Tsinghua University, and a mentor of Ph.D candidates of the Graduate School of the People's Bank of China. He has been Chairman of the board of China Merchants Group Ltd. since January 2001. He has also served as an independent non-executive director of China Telecom Corporation Ltd. (a company listed on the Hong Kong Stock Exchange) since September 2008, and an independent non-executive director of HKR International Ltd. (a company listed on the Hong Kong Stock Exchange) since July 2009. He was previously the general manager and later vice chairman of the China International Trust and Investment Corporation, and the chairman of the board of China CITIC Industrial Bank. Dr. Qin was a deputy of the Ninth National People's Congress and a member of the Tenth National Committee of CPPCC. Dr. Qin served once as a China member and then the chairman in 2001 and the deputy chairman in 2002 of the APEC Business Advisory Council as well as the chairman of the APEC Capability Building Committee from 2003 to 2004.

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

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

Mr. Fu Yuning, non-executive director of the Company. He has been a director of the Company since March 1999. Mr. Fu obtained a doctorate degree from Brunel University, the United Kingdom. He has been a director and president of China Merchants Group Ltd. since April 2000. Mr. Fu has been the chairman of China Merchants Holdings (International) Co., Ltd. (a company listed on the Hong Kong Stock Exchange). He has also been an independent non-executive director of Integrated Distribution Services Group Ltd. (a company listed on the Hong Kong Stock Exchange) and Sino Land Company Ltd. (a company listed on the Hong Kong Stock Exchange), and a director of Hong Kong Port Development Council and a member of Hong Kong Securities and Futures Commission. He has served as the chairman of China Nanshan Development (Group) Inc. He is also the chairman of China Merchants Energy Shipping Co., Ltd. (a company listed on the Shanghai Stock Exchange), the chairman of China International Marine Containers (Group) Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and an independent non-executive director of CapitaLand Ltd. (a company listed on the Singapore Stock Exchange).

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

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

Mr. Ding An Hua, Edward, non-executive director of the Company. He has been a director of the Company since June 2007. He obtained a master's degree in business administration in the School of Business Administration of South China University of Technology and a master's degree in the School of Business of Macquarie University, Australia and held the certificate of Canadian investment manager. He has been the director and chief economist of China Merchants Securities Co., Ltd. (a company listed on the Shanghai Stock Exchange) since May 2009. He is also a director of China Merchants Energy Shipping Co. Ltd. (a company listed on the Shanghai Stock Exchange). He successively served as the assistant to general manager and deputy general manager of the Corporate Business Development Department, deputy general manager of the Corporate Planning Department and the general manager of the Strategy Research Department of China Merchants Group Ltd. from 2001 to 2009.

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

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

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

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

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

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

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

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

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

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

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

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

Supervisors

Mr. Shi Jiliang, Chairman of the Board of Supervisors and external supervisor of the Company. He has been the Chairman of the Board of Supervisors of the Company since May 2006. He is a university graduate and a senior economist. He is also the Chairman of the Education Foundation of the Central University of Finance and Economics and an independent non-executive director of Shanghai Rural Commercial Bank. He was previously the vice governor of the People's Bank of China from 1997 to 2003, and the vice chairman of the CBRC from 2003 to 2005.

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

Mr. Dong Xiande, shareholder representative supervisor of the Company. He served as a director of the Company form June 2002 to May 2003, and has been a supervisor of the Company since June 2007. He graduated with an accounting and statistics degree from Shanghai Harbour School. He is a senior accountant. He is also the deputy chairman of Hebei Association of Communications Accountancy and a consultant for accounting decisions of Hebei Communications Department. From June 1998 to August 2002, he was the chief accountant of Qinhuangdao Port Authority in June 1998, and a director and the chief accountant of Qinghuangdao Port Group Co., Ltd. from August 2002 to July 2007.

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

Mr. Shao Ruiqing, external supervisor of the Company. He has been an external supervisor of the Company since May 2006. Mr. Shao obtained a doctorate degree in management and is currently a professor. He has been the deputy dean of Shanghai Lixin University of Commerce since February 2004. Mr. Shao is also the deputy head of China Association of Communications Accountancy, a director of China Institute of Accounting Instructors, the deputy head of Shanghai Association of Communications Accountancy, and the deputy head of Shanghai Association of Communications Accountancy and a doctoral mentor at Shanghai Maritime University. He is also an independent non-executive director of a number of listed companies such as Shenzhen Guangju Energy Co., Ltd. (a company listed on the Shenzhen Stock Exchange), Wuhan Jianmin Pharmaceutical Group Co., Ltd. (a company listed on the Shanghai Stock Exchange) and Shanghai Automotive Group Co., Ltd. (a company listed on the Shanghai Stock Exchange). Mr. Shao is a deputy to the Thirteenth National People's Congress of Shanghai. He also successively served as the dean of Accounting Department, deputy dean of Management School and dean of Economics and Management School of Shanghai Maritime University from June 2002 to February 2004.

Mr. Shi Shunhua, employee supervisor of the Company. He obtained an MBA degree from China Europe International Business School and is an economist. He joined the Company in 1996 and has been an employee supervisor of the Company since June 2007. He successively served as the general manager of Xujiahui sub-branch of Shanghai Branch of the Company, the general manager of the Bund sub-branch of Shanghai Branch of the Company, and the assistant general manager of Shanghai Branch, and the deputy general manager of Shanghai Branch of the Company. Since November 2008, he has served as the general manager of Suzhou Branch of the Company.

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

Mr. Zhou Song, employee supervisor of the Company. Mr. Zhou is a postgraduate. He joined the Company in February 1997 and has been an employee supervisor of the Company since August 2008. He successively served as manager, assistant general manager and deputy general manager of the Planning and Treasury Department of the Head Office of the Company, the deputy general manager of the Planning and Finance Department of the Head Office of the Company, the deputy general manager of Wuhan Branch of the Company. Since July 2008, he has served as the head of the Planning and Financial Department of the Head Office of the Company.

Senior Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7.5 H Share Appreciation Rights Incentive Scheme during the reporting period

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

Following the Profit Appropriations Scheme for 2008, the Company adjusted the number and granted price of H Share appreciation rights granted to senior management for Phases I and II in accordance with the requirements of "The H-Share Appreciation Rights Scheme of China Merchants Bank". For details of the adjustment, please refer to the announcement in respect of the resolutions passed at the 47th meeting of the 7th session of the Board of Directors which was published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company (the date of the announcement was 16 November 2009).

On 16 November 2009, the Board of the Company made grants of H Share appreciation rights for Phase III and made a public announcement. The target and proportion for the grants are as follows:

Aggregate Number and Allocation of H Share Appreciation Rights at Phase III

No.	Name	Title	Number of share appreciation rights granted (in ten thousand)	Percentage of target shares in respect of granted appreciation rights to total shares	Percentage of granted appreciation rights to total appreciation rights for the period
1	Ma Weihua	President	30	0.0016%	18.87%
2	Zhang Guanghua	Executive Vice President	15	0.0008%	9.43%
3	Li Hao	Executive Vice President	15	0.0008%	9.43%
4	Tang Zhihong	Executive Vice President	15	0.0008%	9.43%
5	Yin Fenglan	Executive Vice President	15	0.0008%	9.43%
6	Ding Wei	Executive Vice President	15	0.0008%	9.43%
7	Tang Xiaoqing	Secretary of Party Discipline Committee	15	0.0008%	9.43%
8	Wang Qingbin	Executive Assistant President	12	0.0006%	7.55%
9	Xu Lianfeng	Chief Technology Officer	9	0.0005%	5.66%
10	Fan Peng	Chief Audit Officer	9	0.0005%	5.66%
11	Lan Qi	Secretary of Board of Directors	9	0.0005%	5.66%
	Total		159	0.0083%	100.00%

These H Share appreciation rights at Phase III are granted at the price of HK$21.95 and will remain valid for ten years effective from 16 November 2009, within which two years from 16 November 2009 is defined as a restricted exercising period, when no share appreciation rights can be exercised. The effective exercising period is 8 years after the expiry of the restricted exercising period. During the first 4 years of the effective exercising period, the annual effective exercisable rights is 25% of the total granted rights. The effective exercisable share appreciation rights granted are exercisable from the effective date till the end of the exercising period; the people receiving the incentive scheme may exercise their effective exercisable share appreciation rights once and for all or in several tranches. The share appreciation rights shall only be exercised within the exercising period. As at 31 December 2009, the closing price of the Company's H Shares was HK$20.35.

7.6 Appointment and resignation of executives during the reporting period

In May 2009, with the qualification approval from CBRC Shenzhen Bureau, Mr. Wang Qingbin was appointed as Executive Assistant President of the Company.

The Company's former Shareholder Supervisor, Mr. Chen Haoming, resigned from a shareholder company due to work reassignment, as such, Mr. Chen resigned as Shareholder Supervisor of the Company on 21 July 2009, details of which were set out in the announcement dated 22 July 2009 published by the Company in designated newspapers and websites for information disclosure.

7.7 Information about employees

As at 31 December 2009, the Company had 40,340 employees, including 8,587 management people, 30,127 ordinary employees and 1,626 administration staff. Of these staff, 38,729 employees had college education or above, accounting for 96.03%. Currently, the Company has 128 retirees.

7.8 Branches and representative offices

The Company continued its organic expansion in 2009. During the reporting period, 5 domestic branches were approved to commence business, and the Company received approval for setting up 6 branches, plus 3 non-local sub-branches were approved to be upgraded to branches; and an overseas representative office was approved for establishment. Specifically, on 1 April 2009, the Company's Wuhu Branch was approved by CBRC Anhui Bureau to commence business; on 21 May 2009, the Company's Qujing Branch was approved by CBRC Yunnan Bureau to commence business; on 23 October 2009, the Company's Yulin Branch was approved by CBRC Shannxi Bureau to commence business; on 4 December 2009, the Company's Weihai Branch was approved by CBRC Shandong Bureau to commence business; on 30 December 2009, the Company's Ganzhou Branch was approved by CBRC Jiangxi Bureau to commence business; on 11 September 2009, the Company obtained the approval from CBRC Hunan Bureau to set up its Hengyang Branch; on 26 October 2009, the Company obtained the approval from CBRC Jiangsu Bureau to set up its Zhengjiang Branch; on 19 November 2009, the Company obtained the approval from CBRC to set up its Guiyang Branch; on 4 December 2009, the Company obtained the approval from CBRC Sichuan Bureau to set up its Leshan Branch; on 14 December 2009, the Company obtained the approval from CBRC Anhui Bureau to set up its Huainan Branch; and on 28 December 2009, the Company obtained the approval from CBRC Shandong Bureau to set up its Linyi Branch. In addition, on 30 April 2009, the Company's Dandong Sub-branch obtained the approval from CBRC to upgrade to a branch; and on 25 May 2009, the Company's Yichang Sub-branch and Huangshi Sub-branch obtained the approval from CBRC Hubei Bureau to upgrade to branches. On 21 April 2009, the Company obtained the approval from CBRC to set up its London Representative Office.

In 2010, the Company will carry on its organic expansion plan by adhering to the principles of "getting right rhythm, paying attention to efficiency, securing high quality and emphasizing key points", and will emphatically develop its second-tier branches and sub-branches in county region, continuously expand the local coverage of sub-branches and self-service machines in the same city and steadily pursue its organic expansion. In establishing its regional framework, the Company will further develop the three major regional markets in Yangtze River Delta, Pearl River Delta and Bohai Economic Rim, and will strengthen its developing advantages and enhance its regional competitiveness in these major regions.

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

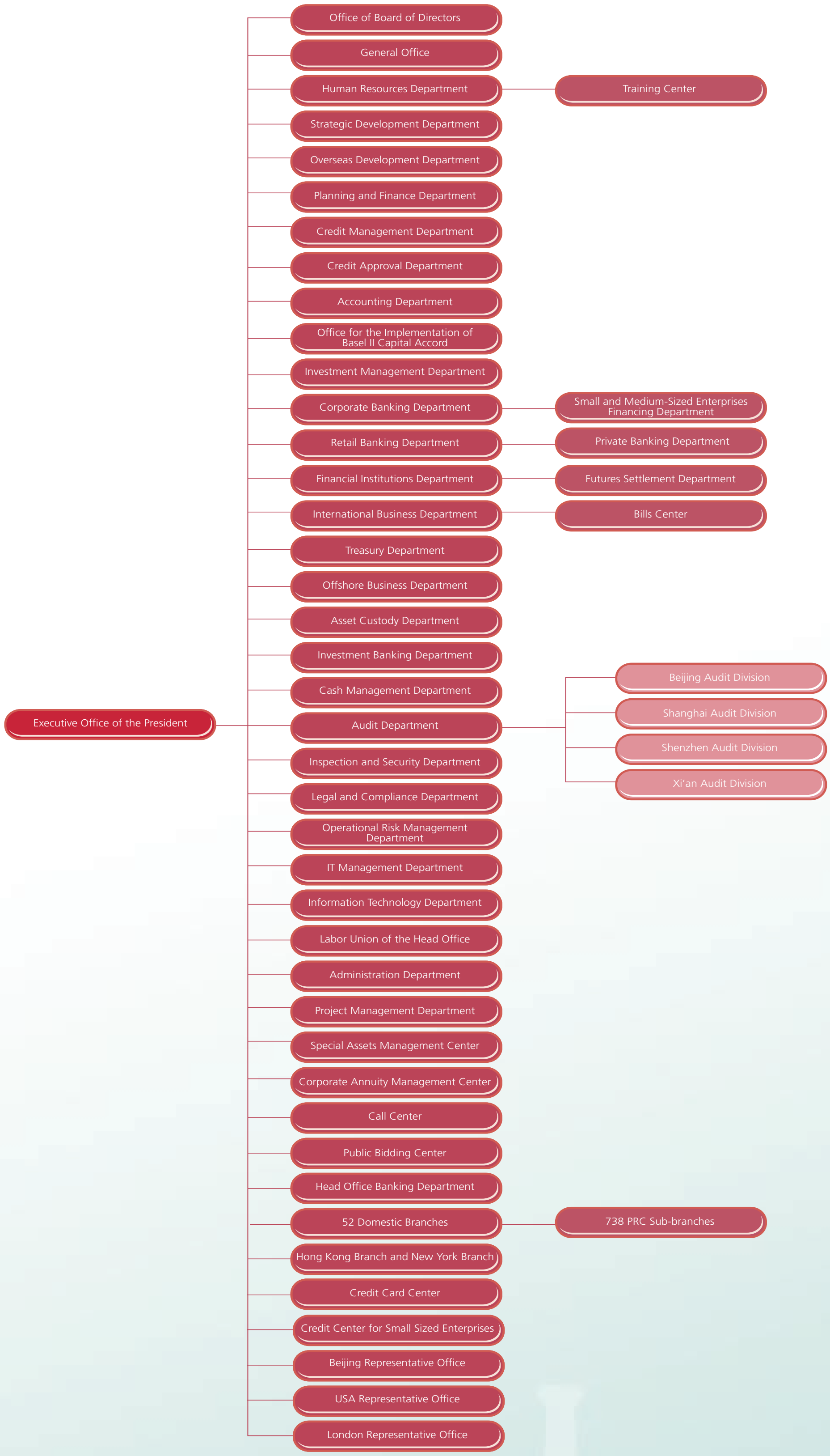
The following table sets out the branches and representative offices as at 31 December 2009:

Name of branches	Business address	Postal code	No. of outlets	No. of staff	Size of asset (in millions of RMB)
Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	2,005	663,690
Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	68	2,848	123,903
Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	54	2,434	108,760
Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	23	1,179	40,103
Yichang Branch	70 Yiling Road, Yichang	443002	4	117	3,625
Huanshi Branch	11 Laodong Road, Huanshigang District, Huangshi	435000	5	128	2,931
Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	48	2,628	113,009
Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	17	1,058	31,006
Dandong Branch	Block 11, Nanjinqiao Estate, Zhenxing District, Dandong	118000	3	95	2,561
Guangzhou Branch	138 Tiyu Road East, Tianhe District, Guangzhou	510620	39	1,544	47,136
Chengdu Branch	248 Shuncheng Street, Qingyang District, Chengdu	610016	26	1,038	31,727
Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	17	643	24,618
Xi'an Branch	107 Heping Road, Xi'an	710001	23	1,014	34,509
Yulin Branch	1-2/F, Changfeng Building, Hangyu Road Central, Yulin	719000	1	38	192
Nanjing Branch	1 Hanzhong Road, Nanjing	210005	20	1,107	41,960
Wuxi Branch	128 Renmin Road Central, Wuxi	214002	11	409	17,698
Changzhou Branch	125 Heping Road South, Changzhou	213003	6	199	6,331
Yangzhou Branch	12 Wenchang Road West, Yangzhou	225009	4	157	4,685
Suzhou Branch	128 Sanxiang Road, Suzhou	215004	13	553	42,523
Nantong Branch	Huachen Building, No.111 Gongnong Road, Nantong	226001	2	82	4,225
Chongqing Branch	2 Linjiangzhi Road, Yuzhong District, Chongqing	400010	26	1,022	30,578
Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	16	627	17,453
Hangzhou Branch	23 Hangda Road, Hangzhou	310007	23	1,210	56,489
Ningbo Branch	938 Baizhang Road East, Ningbo	315041	12	613	32,543
Wenzhou Branch	Jinglong Building, Chezhan Avenue, Wenzhou	325000	10	395	14,765
Shaoxing Branch	Jindun Building, 60 Shengli Road East, Shaoxing	312000	7	303	12,385
Jinhua Branch	45 Shuangxi Road West, Jinhua	321017	3	133	4,664
Taizhou Branch	535 Shifu Road, Taizhou	318000	3	140	3,617
Nanchang Branch	162 Bayi Avenue, Nanchang	330003	19	807	22,969
Ganzhou Branch	66 Hongqi Street, Zhanggong District, Ganzhou	341000	1	48	1
Changsha Branch	24 Cai'e Road Central, Furong District, Changsha	410005	21	852	33,546
Fuzhou Branch	60 Guping Road, Fuzhou	350003	14	633	15,282
Quanzhou Branch	Huangxing Building, 301 Fengze Street, Fengze District, Quanzhou	362000	7	258	6,863
Qingdao Branch	36 Hong Kong Road Central, Shinan District, Qingdao	266071	16	802	29,997
Weihai Branch	19 Qingdao Road North, Weihai	264200	1	74	388
Tianjin Branch	55 Youyi Road North, Hexi District, Tianjin	300204	22	806	30,139
Jinan Branch	21 Chaoshan Street, Lixia District, Jinan	250011	17	726	32,161
Yantai Branch	237 Nanda Street, Yantai	264000	7	241	6,641
Weifang Branch	5151 Shengli Street East, Kuiwen District, Weifang	261041	1	121	3,654
Urumchi Branch	80 Xinhua Road North, Urumchi	830002	11	423	11,558
Kunming Branch	48 Dongfeng Road East, Kunming	650051	20	727	29,202
Qujing Branch	1-2/F, Phase 1, Shangdu Mansion, Qilin Road East, Qujing	655000	1	42	812
Hefei Branch	436 Changjiang Road Central, Hefei	230061	14	559	18,832
Wuhu Branch	2 Zhongshan Road Walking Street, Wuhu	241000	1	82	2,714
Xiamen Branch	862 Xiahe Road, Xiamen	361004	12	458	17,347
Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	13	532	15,218

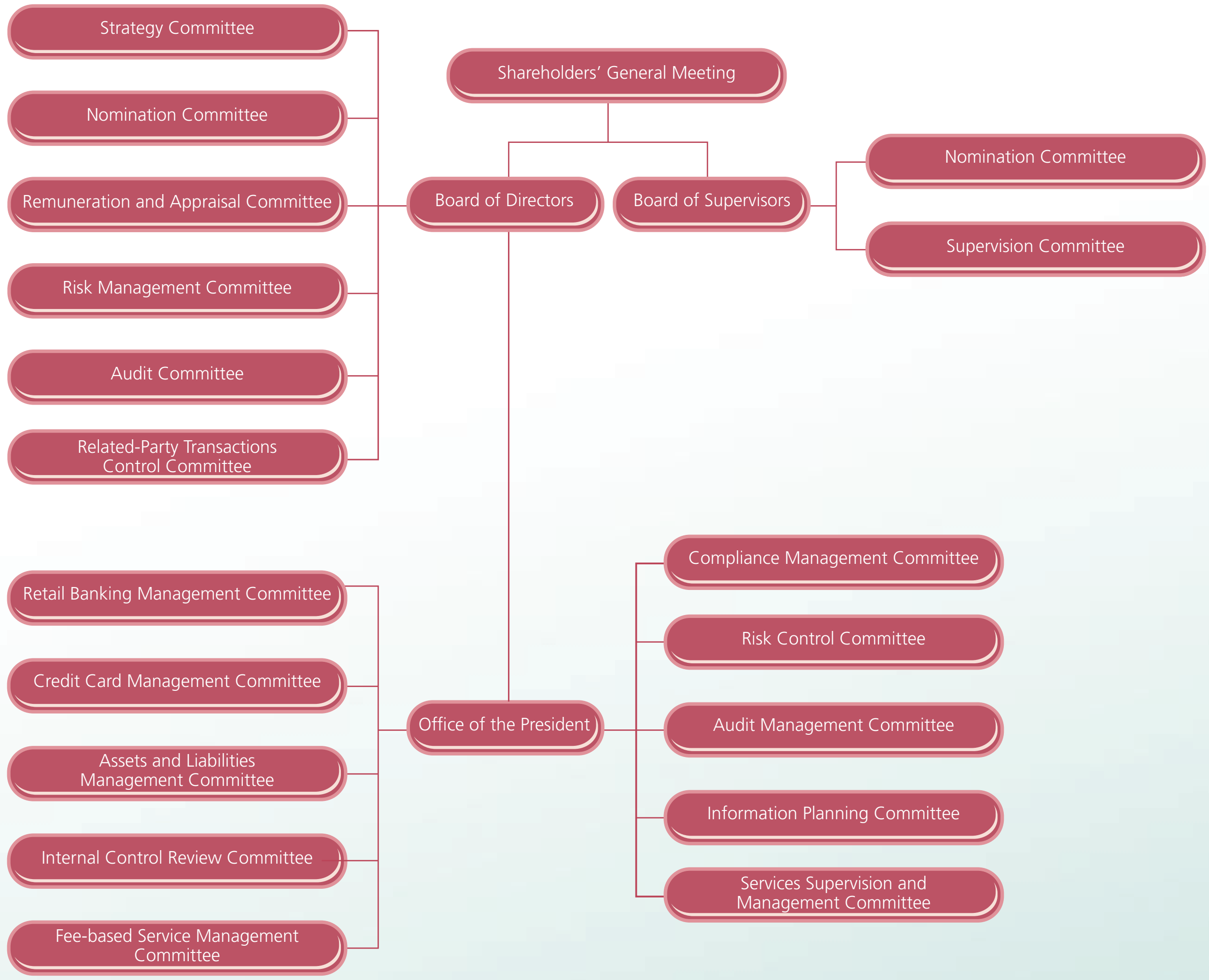
Name of branches	Business address	Postal code	No. of outlets	No. of staff	Size of asset (in millions of RMB)
Zhengzhou Branch	68 Jingsan Road, Zhengzhou	450008	15	557	27,332
Dongguan Branch	Yujing New Times Plaza, Dongcheng Avenue, Dongguan	523129	14	594	24,128
Foshan Branch	1-3/F, Hongye Mansion, 23 Jihua 5th Road, Foshan	528000	12	445	16,407
Taiyuan Branch	1 Xinjian Road South, Taiyuan	030001	6	288	8,640
Hohhot Branch	56 Xinhua Street, Hohhot	010010	6	284	13,071
Changchun Branch	1111 Ziyou Avenue, Zhaoyang District, Changchun	130000	1	107	11,876
Nanning Branch	1-6/F, New City International Building, 92-1 Minzu Avenue, Nanning	530022	1	156	4,749
Hong Kong Branch	21st Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong	–	1	97	28,896
Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	8	1
USA Representative Office	509 Madison Aveune, Suite 306, New York, 10022, U.S.A	–	1	1	1
London Representative Office	39 Cornhill EC3V 3ND, London, UK	–	1	1	–
New York Branch	535 Madison Aveune	–	1	32	1,330
Credit Card Center	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	5,562	39,065
Credit Center for Small Sized Enterprises	Zhiye Commerce Square Building, 158 Wangdun Road, Suzhou	215028	1	298	5,411
Total	–	–	745	40,340	1,975,917

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

7.9 The Company's organizational chart:



8.1 Corporate Governance Structure:



8.2 Governance

In 2009, the Company has diligently studied and complied with various corporate governance requirements of relevant regulatory authorities. Meanwhile, the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the specialized committees of the Company had functioned proactively and effectively, played an active role in enhancing democratic discussion and scientific decision making, successfully completed analysis and review of important issues of the operation and management of the Company, provided solid support for the management team and guaranteed compliant operation and sustainable and steady development of the Company. Particulars of which are set out as follows:

1. During the year, the Company organized and convened in aggregate 57 meetings of various nature, among which, there were 3 general meetings, 17 board meetings, 24 meetings of the specialized committees of the Board of Directors, 7 meetings of the Board of Supervisors, 2 meetings of the specialized committees of the Board of Supervisors and 4 meetings of the Board of Supervisors in the form of research and investigations.

2. During the year, the specialized committees of the Board of Directors diligently organized and convened 24 meetings, i.e. 7 physical meetings more as compared to that in 2008, and at these meetings, 55 significant resolutions were reviewed and approved, which is 19 resolutions more as compared to that in 2008. The specialized committees of the Board of Directors made full advantage of their expertise and research capability, and matters under their review had covered most of the resolutions proposed to the Board of Directors, thus enhanced the efficiency and scientific decision making ability of the Board of Directors, and promoted the healthy development of various businesses of the Company.

3. The Board of Supervisors fully and promptly understood the Company's operations and risk control condition through active pursuit of investigation and research and hearing various specific reports. During the year, several meetings were arranged for the Board of Supervisors to review various specific reports such as the Appraisal Report on the Company's Internal Control and Audit in 2008, the Report on the Audit of Related-Party Transactions in 2008, the Report on Credit Quality for 2008 and Loan Trend Analysis for the First Quarter of 2009, the Report on Crime Prevention in 2008, the Report on the Operation of Credit Centre for Small Sized Enterprises, the Report on the Merger and Acquisition of WLB and its Present Operations as well as reports on the development of internal control and credit policies in our branches.

4. During the year, the Company clarified or supplemented the terms of appointment of directors, the quantified attendance requirements of directors at meetings and the establishment of evaluation system for the supervisor's performance by making amendments to the Articles of Association to better meet the requirements of corporate governance.

5. The Company disclosed its significant information in a timely, accurate, truthful and complete manner in strict compliance with the requirements of the laws and regulations on information disclosure in China and overseas, smoothly completed the first annual report prepared on a consolidated basis after the acquisition of WLB and made disclosures on the hot issues concerned by investors, to ensure the shareholders to know all important issues facing the Company in a timely manner and effectively protect the interests of investors. As a result, the Company obtained praise from regulatory authorities and good market recognition. In addition, the Company also improved the preparation process of periodic reports, actively applied the new rules issued by Hong Kong Stock Exchange to significantly reduce the printing costs on annual reports, and succeeded in implementing the Profit Appropriations Scheme for distribution of cash plus bonus shares in respect of the A and H shares of the Company for the first time.

   In 2009, the Company disclosed more than 220 documents in total with about 1.7 million characters on Shanghai Stock Exchange and Hong Kong Stock Exchange, including regular reports, temporary announcements, documents concerning corporate governance, circulars to shareholders, proxy forms and reply slips.

6. The Company revised the "Work Procedures on Annual Report for Audit Committee of the Board of Directors" and the "Rules Governing Independent Directors' Work on Annual Reports" according to the regulatory requirements, further clarified the duties of Audit Committee of the Board of Directors and the Independent Directors in the course of annual report preparation, consideration and disclosure, so as to bring their supervisory functions into full play.

7. The Company formulated the "Insider Information and Informed Personnel Management System" which specified the extent of insider information and informed personnel, the registration of informed personnel and the confidential treatment of insider information.

8. The Company proactively promoted and improved its investor relations management. During the reporting period, the investor relations management continued to obtain great attention and strong support from the Board of Directors and the senior management of the Company. The senior management such as chairman and president and the department heads of the Company participated in significant investor relations management activities in person to better meet investors' needs to communicate with the Company's senior management and obtained good market recognition. The Company also added two new columns of "Investors' FAQs" and "Investor's Calendar" on its website, and further enriched the contents on the webpage of investor relations, which have improved the communication and contact channels between investors and the Company.

In 2009, the Company organized and convened 4 results referral conferences, 2 road shows, and attended 38 investment promotion conferences sponsored by well-established investment banks in China and abroad, received 205 visits and telephone conferences from domestic and overseas investors, answered 966 telephone enquiries from investors and securities analysts, and handled 573 online messages and 53 email enquiries.

Having conducted a careful self-inspection, the Company was not aware of any non-compliance of its corporate governance practice with the requirements set out in CSRC's regulatory documents governing the corporate governance of listed companies. There was not any disclosure of information to its major shareholders or the beneficial controlling shareholders before such information being published and any other irregularities in the Company's corporate governance.

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

8.3 Information about general meetings

During the reporting period, the Company convened its 2009 First Extraordinary General Meeting and 2008 Annual General Meeting in Shenzhen on 27 February 2009 and 19 June 2009 respectively, and convened its 2009 Second Extraordinary General Meeting, 2009 First A Shareholders Class Meeting and 2009 First H Shareholders Class Meeting in Shenzhen on 19 October 2009. The notice and the convening, holding and voting procedures of the meetings all complied with the Company Law, the Articles of Association and the relevant requirements of the Hong Kong Listing Rules. Relevant resolutions were published on China Securities Journal, Shanghai Securities News, Securities Times, and the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 28 February 2009, 20 June 2009 and 20 October 2009 respectively.

8.4 Board of Directors

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

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

8.4.1 Composition of the Board of Directors

As at 31 December 2009, the Board of Directors of the Company had 18 members, including 9 non-executive directors, 3 executive directors, and 6 independent non-executive directors. All non-executive directors come from large state-owned enterprises where they hold key positions and are experienced in management. Most of them have work experience in financial industry. All 3 executive directors have been engaged in the management of banking operations and have extensive professional experience in this area. The 6 independent non-executive directors are renowned experts in finance, accounting and law who have extensive knowledge of the development of the domestic and overseas banking industry, with one from Hong Kong who is proficient in international accounting standards and Hong Kong capital market.

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

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

8.4.2 Appointment, re-election and removal of directors

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

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

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

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

During the reporting period, there was no change in the composition of the Board of Directors of the Company.

8.4.3 Responsibilities of directors

During the reporting period, all directors of the Company have cautiously, seriously and diligently performed their rights as a director granted by the Company and by domestic and overseas regulatory authorities, devoted sufficient time and attention to the business of the Company, ensured the business practices of the Company were fully compliant with the requirements of the laws and administrative regulations and economic policies of the country, gave all shareholders fair treatment, readily reviewed the business operation and management of the Company, and fulfilled the responsibilities stipulated under the laws and administrative regulations, departmental regulations and the Articles of Association of the Company. During the year, their attendance of meetings has been satisfactory, with the attendance rates of every director reaching 94% or above.

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

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

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

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

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

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

8.4.5 Attendance at Meetings of the Board of Directors

During the reporting period, the Board of Directors of the Company held a total of 17 meetings (2 physical meetings, 1 video meeting, 2 physical and telephone meetings and 12 meetings by way of written resolutions), at which major issues involving the strategies, risks, remuneration, audit, finance and operations of the Company were reviewed and approved by the Board of Directors.

The following table sets out the records of attendance of the respective directors at physical board meetings held in the year ended 31 December 2009.

Name of Director	Number of meetings attended/ Number of meetings held
Non-Executive Directors	
Qin Xiao	16/17
Wei Jiafu	12/17
Fu Yuning	16/17
Li Yinquan	17/17
Hong Xiaoyuan	17/17
Ding An Hua, Edward	16/17
Sun Yueying	17/17
Wang Daxiong	15/17
Fu Junyuan	14/17
Executive Directors	
Ma Weihua	17/17
Zhang Guanghua	16/17
Li Hao	17/17
Independent Non-Executive Directors	
Wu Jiesi	17/17
Chow Kwong Fai, Edward	17/17
Liu Yongzhang	17/17
Liu Hongxia	17/17
Yan Lan	15/17
Yi Xiqun	17/17

8.4.6 Meetings of the Board and contents of resolutions

1. The 33rd meeting of the Seventh Session of the Board was convened on 5 January 2009 by way of written resolutions. The "Resolution on the Use of the Company's Own Website for Sending or Supplying Corporate Communication(s) to Shareholders of H Shares Who Met the Conditions", the "Notice to Convene the 2009 First Extraordinary General Meeting" and the "Resolution on the Continuing Connected Transactions for the Period from 2009 to 2011" were considered and passed with 18 out of the 18 directors casting votes. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 6 January 2009 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

2. The 34th meeting of the Seventh Session of the Board was convened on 16 January 2009 by way of written resolutions. The "Resolution on Material Related Party Transactions" was considered and passed with 18 out of the 18 directors casting the vote.

3. The 35th meeting of the Seventh Session of the Board was convened on 31 March 2009 by way of written resolutions. The "Resolution on Material Related Party Transactions" was considered and passed with 18 out of the 18 directors casting the vote.

4. The 36th meeting of the Seventh Session of the Board was convened on 20 April 2009 by way of written resolutions. The "Resolution Regarding the Issuance of Financial Bonds", the "Resolution Regarding the Establishment of Corporate Branch Network for the Year 2009", the "Report on Compliance with Risk Management for the Year 2008", the "Report on Related Transactions for the Year 2008", the "Audit Report on the Status of Related Transactions for the Year 2008", the "Resolution on Work Procedures on Annual Report for Independent Directors of China Merchants Bank Co., Ltd. (Revised 2009)", the "Resolution on Work Guidelines on Annual Report for the Audit Committee of the Board of Directors of China Merchants Bank Co., Ltd. (Revised 2009)", "Resolution Regarding the Change of the Person-in-charge of the Audit Department", the "Resolution Regarding the Change in Accounting Policy and Accounting Estimates for the Year 2008", and the "Resolution on Material Related Party Transactions" were considered and passed with 18 out of the 18 directors casting votes. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 21 April 2009 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

5. The 37th meeting of the Seventh Session of the Board was held on 24 April 2009 in Shenzhen. The meeting was chaired by Chairman Qin Xiao. 14 out of the 18 eligible Directors were present at the meeting. Wei Jiafu and Fu Yuning (both being Directors) appointed Qin Xiao (Director), Wang Daxiong and Fu Junyuan (both being Directors) appointed Li Yinquan (Director) as their respective proxies to vote on their behalf respectively. The total number of valid votes was 18. Six supervisors of the Company also attended the meeting. The following resolutions were passed at the meeting: the Work Report of the Board of Directors for the Year 2008, the Work Report of the President for the Year 2008, the Annual Report for the Year 2008 including the annual results announcement, the 2008 Financial Statements and 2009 Budget Report, the Profit Appropriations Plan for the Year 2008, the Social Responsibility Report for the Year 2008, the Proposed Amendments to the Articles of Association, the Proposal Regarding the Issuance of Capital Bonds, the Resolution in Relation to the Termination of A Share Incentive Scheme, the Self-Investigation Report on the Internal Control in Relation to the Board for the Year 2008, the Accountant 's Report on the Audit of China Merchants Bank for the Year 2008 issued by KPMG Certified Public Accountants, and the Notice for Convening 2008 Annual General Meeting. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 25 April 2009 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

6. The 38th meeting of the Seventh Session of the Board was convened on 29 April 2009 by way of written resolutions. The "First Quarterly Report for 2009" was considered and passed with 18 out of the 18 directors casting votes. The "First Quarterly Report for 2009" was published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 30 April 2009 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

7. The 39th meeting of the Seventh Session of the Board was convened on 2 June 2009 by way of written resolutions. The "Supplementary Resolution Regarding the Establishment of Corporate Branch Network for the Year 2009" and the "Resolution on Material Related Party Transactions" were considered and passed with 18 out of the 18 directors casting the vote. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 3 June 2009 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

8. The 40th meeting of the Seventh Session of the Board was convened on 22 June 2009 by way of written resolutions. The "Resolution on Material Related Party Transactions" was considered and passed with 18 out of the 18 directors casting the vote.

9. The 41st meeting of the Seventh Session of the Board was convened on 30 June 2009 by way of written resolutions. The "Resolution Regarding the Increase of Actual Use Limit of Credits Granted to Certain Group of Companies" was considered and passed with 18 out of the 18 directors casting the vote.

10. The 42nd meeting of the Seventh Session of the Board was held on 29 July 2009 in Shenzhen by way of telephone conference. The meeting was chaired by Chairman Qin Xiao. 15 out of the 18 eligible Directors were present at the meeting. Wei Jiafu and Fu Junyuan (both being Directors) appointed Sun Yueying (Director), Yan Lan (being Independent Director) appointed Liu Hongxia (Independent Director) as their respective proxies to vote on their behalf respectively. The total number of valid votes was 18. Four supervisors of the Company also attended the meeting. The "Report of Implementing Adjustment to the Principal Business Plan and Operational Strategy for 2009 as required by CBRC" was considered and passed.

11. The 43rd meeting of the Seventh Session of the Board was held on 13 August 2009 in Shenzhen, Beijing and Shanghai by way of video conference. The meeting was chaired by Fu Yuning (being a Director) as authorized by Chairman Qin Xiao. 13 out of the 18 eligible Directors were present at the meeting. Qin Xiao (being Chairman) appointed Fu Yuning (Director), Wei Jiafu and Wang Daxiong (both being Directors) appointed Sun Yueying (Director), Ding An Hua Edward (being Director) appointed Hong Xiaoyuan (Director), and Yan Lan (being Independent Director) appointed Liu Hongxia (Independent Director) as their respective proxies to vote on their behalf respectively. The total number of valid votes was 18. Seven supervisors of the Company also attended the meeting. The following resolutions were passed at the meeting: the "Resolution regarding the Proposed Rights Issue of A Shares and H Shares of China Merchants Bank Co., Ltd.", the "Resolution regarding the Disposal of Undistributed Profits prior to the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd.", the "Proposal regarding the Use of Proceeds from the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd.", the proposal regarding the "Explanatory Statement in relation to the Use of Proceeds from the Previous Fund Raising", the Proposal regarding the "Provisional Measures for Appointment of Annual Auditors of China Merchants Bank Co., Ltd.", and the "Resolution regarding Convening the 2009 Second Extraordinary General Meeting, 2009 First A Share Class Meeting and 2009 First H Share Class Meeting". The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 14 August 2009 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

12. The 44th meeting of the Seventh Session of the Board of Directors of the Company was held on 28 August 2009 in Changchun. Out of the 18 eligible Directors, 15 Directors attended the meeting in person and two Directors joined the meeting by phone. Director Wei Jiafu appointed Director Sun Yueying to attend the meeting and exercise the voting right on his behalf. Total number of valid votes was 18. There were 5 supervisors of the Company present at the meeting. The following resolutions were passed at the meeting: the "Working Report of the President for the Interim Period of 2009", the full text and summaries of the "2009 Interim Report", the "Resolution on Write-off of Large Amount of Bad Debts and Loans for the First Half of 2009", the "Resolution on Appointing Chairmen of General Meetings and Class Meetings", the "Resolution regarding the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd. (Revised)", the "Resolution on Calling off the 2009 Second Extraordinary General Meeting, the 2009 First A shareholders Class Meeting and the 2009 First H Shareholders Class Meeting originally scheduled to be convened on 9 October 2009", the "Resolution on Convening the 2009 Second Extraordinary General Meeting, the 2009 First A Shareholders Class Meeting and the 2009 First H Shareholders Class Meeting". In addition, the following reports were considered at the meeting: the "Report on Recognition of Responsibility and Treatment of Doubtful Debts and Assets Written-off in 2008", the "Report on Our loans Made to the Government's Investment and Financing Platform", the "Report on the Progress of the 2008 Regulatory Notice of the China Banking Regulatory Commission", the "Report on the Progress of the 2008 Special Audit Investigation of National Audit Office" and the "Development Plan for Personal Wealth Management of China Merchants Bank ". The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* dated 29 August 2009 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

13. The 45th meeting of the Seventh Session of the Board of Directors of the Company was held on 25 September 2009 by way of written resolutions. All 18 eligible Directors cast votes at the meeting. The "Proposal on Substantial Related Party Transactions" was considered and passed at the meeting.

14. The 46th meeting of the Seventh Session of the Board of Directors of the Company was held on 30 October 2009 by way of written resolutions. All 18 eligible Directors cast votes at the meeting, where the "Third Quarterly Report for 2009" and the "Regulation for Inside Information and Insiders", "Confidentiality and Anti-Money Laundering Policies of the New York Branch (2009-2010)" and the "Proposal on Relocation of U.S. Office" were considered and passed. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 31 October 2009 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

15. The 47th meeting of the Seventh Session of the Board of Directors of the Company was held on 16 November 2009 by way of written resolutions. All 18 eligible Directors cast votes at the meeting, where the "Resolution on Remuneration Package for Certain New Members of Senior Management", the "Proposal on Phase III of the Grant of H Shares Appreciation Rights to the Senior Management of China Merchants Bank", the "Proposal on Formulating the Implementation and Examination Rules for H Shares Appreciation Rights Incentive Program of China Merchants Bank Co., Ltd." and the "Proposal for Adjusting the Number of Granting and the Exercise Price for Phase I and Phase II of H Shares Appreciation Rights based on the Profit Appropriation Plan for the Year 2008"were considered and passed. The resolutions passed at the meeting were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* dated 17 November 2009 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

16. The 48th meeting of the Seventh Session of the Board of Directors of the Company was held on 11 December 2009 by way of physical meeting and telephone. The meeting was presided by Mr. Qin Xiao, Chairman of the Board. 15 out of 18 eligible Directors attended the meeting in person. Wei Jiafu and Fu Junyuan, Zhang Guanghua (directors) respectively appointed Sun Yueying, Li Yinquan and Ma Weihua (directors) as their proxy to vote. Total number of valid votes is 18. There were 7 supervisors of the Company present at the meeting, where the "2010 Main Operating Plan" and the "Medium-term Plan on the Capital Management" were considered and passed. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* dated 18 December 2009 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

17. The 49th meeting of the Seventh Session of the Board of Directors of the Company was held on 23 December 2009 by way of written resolutions. All 18 eligible Directors cast votes at the meeting, where the "Administrative Measures for Consolidation of Financial Statements", the "Reputation Risk Management Measures", the "Basic Requirement on Internal Control (the Second Edition)" and the "Proposal on writing-off of Large Amount of Bad Debts and Loans for the Third Quarter of 2009" were considered and passed. The resolutions were published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times* dated 24 December 2009 and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Through the meetings mentioned above, the Board of Directors of the Company considered and passed totally 65 proposals on the Company's strategies, risk, remuneration, auditing, finance and operation.

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

1. According to the "Resolution on the Use of the Company's own Website for sending or supplying Corporate Communication(s) to shareholders of H Shares who met the Conditions" considered and passed at the 2009 First Extraordinary General Meeting of the Company, the Board of the Company has used the Company's own website for sending or supplying Corporate Communication(s) to shareholders of H Shares who met the conditions after the meeting.

2. According to the "Resolution on Profit Appropriation for the Year 2008" considered and passed at the 2008 Annual General Meeting of the Company, the profit appropriation plan of the Company for the Year 2008 was as follows: 10% of the Company's profit after tax RMB20.412 billion in the audited financial statements (domestic edition), which amounted to RMB2.041 billion, was transferred to the statutory surplus reserve. Regulatory general reserve was RMB1.4 billion. The profit available for distribution to shareholders for the current year was RMB24.874 billion. Based on the total share capital of A shares and H shares, the Company proposed to distribute 3 bonus shares and declare a cash dividend (including tax) of RMB1.00 (denominated in RMB) for every 10 shares, payable in RMB for A share-shareholders and in HK Dollars for H share-shareholders. The actual profit appropriation amount in HK Dollars would be calculated based on the average rate of PBOC's RMB/HKD benchmark exchange rates for the week before the date of the general meeting (inclusive). The retained profits would be carried forward to next year. The Board of Directors of the Company had already implemented the above-mentioned dividend distribution scheme.

3. Pursuant to the "Resolution on Issuance of Financial Bonds" considered and passed at the 2008 Annual General Meeting of the Company, the Board of the Company has authorized the management team to effect the issuance of financial bonds.

4. Pursuant to the "Resolution on Issuance of Capital Bonds" considered and passed at the 2008 Annual General Meeting of the Company, the Board of the Company has authorized the management team to effect the issuance of capital bonds.

5. Pursuant to the "Resolution on amendments to the Articles of Association of the Company" considered and passed at the 2008 Annual General Meeting of the Company, the Board of the Company has submitted the amended "Articles of Association of the Company" to the CBRC and has obtained approval from the CBRC on 21 October 2009.

6. Pursuant to the "Proposal on the Rights Issue of A Shares and H Shares by China Merchants Bank Co., Ltd. (Revised)" which was considered and passed at the 2009 Second Extraordinary General Meeting, the 2009 First A shareholders Class Meeting and the 2009 First H shareholders Class Meeting of the Company, the proposal on the rights issue of A Shares and H Shares has been carried out smoothly. Please refer to the section headed "Use of fund raised and major investment not financed by raised fund" for details.

8.4.8 Securities transactions of directors, supervisors and the relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules of Hong Kong Stock Exchange as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Having made specific enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the year ended 31 December 2009.

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

8.4.9 Performance of duties by independent non-executive directors

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

During the reporting period, the independent non-executive directors expressed independent opinions on material issues including related transactions of the Company and the proposal for the Phase III of grant of H share appreciation rights. They made no dissent to the proposals of the Board of Directors nor any non-board proposals and matters during the year.

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

1. The independent non-executive directors received reports from the management and Chief Financial Officer on the operations, financial condition and operating results of the Company in 2009 and on significant matters such as investment and financing activities, and carried out on site inspection on the retail loan business of the retail banking departments of the Head Office and Shenzhen Branch. The independent non-executive directors considered that the reports prepared by the management of the Company had fully and objectively reflected the operating results of the Company in 2009 as well as the progress of significant matters, and they recognized and were satisfied with the measures taken by the management team and the results recorded in 2009.

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

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

8.4.10 Attendance of independent non-executive directors at board meetings

Name of independent non-executive director	Times of attendance required for the year	Attendance in person (times)	Attendance by proxy (times)	Absence (times)	Remarks
Wu Jiesi	17	17	0	0	
Chow Kwong Fai, Edward	17	17	0	0	
Liu Yongzhang	17	17	0	0	
Liu Hongxia	17	17	0	0	
Yan Lan	17	15	2	0	At the 42nd and 43rd meetings of the Seventh Session of the Board, Liu Hongxia (an independent non-executive director) was appointed as her proxy to vote.
Yi Xiqun	17	17	0	0	

8.5 Specialized Committees of the Board of Directors

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

In 2009, all specialized committees under the Board of Directors of the Company carried out their duties in an independent, compliant and effective manner. During the year, these committees held a total of 24 meetings, studied and reviewed 55 proposals which were significant to the sustainable development of the Company and the enhancement of corporate governance, including capital plan, implementation of the New Basel II Capital Accord, establishment of Corporate Branch Network, management of consolidated statements, reputation risk management, external auditors, internal control, remuneration and incentive package for senior management, related-party transactions, credit risk management, market risk management. All these efforts have improved the efficiency of the Board and made the decision-making of the Board of Directors more scientific, and were beneficial to the healthy development of all our businesses.

The composition and duties of the six specialized committees and their work performed in 2009 are summarized as follow:

8.5.1 Strategy Committee

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

Main authorities and duties:

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

In 2009, the Strategy Committee considered and passed the proposals on issuance of the Company’s capital bonds and the establishment of new outlets in 2009. It also considered and reviewed reports on the acquisition of and integration with Wing Lung Bank as well as the operation of Wing Lung Bank.

During the reporting period, the Strategy Committee held one physical meeting and one meeting by way of written resolutions. The attendance record is as follows:

Member	Number of meetings attended/ Number of meetings held
Non-Executive Directors	
Fu Yuning (Chairman)	2/2
Wei Jiafu	2/2
Wang Daxiong	2/2
Fu Junyuan	1/2
Executive Director	
Ma Weihua	2/2

8.5.2 Nomination Committee

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

Main authorities and duties:

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

During the reporting period, in view of the competency and soundness of the Board of Directors, and that the Board of Directors was not subject to re-election, the Nomination Committee held no meetings.

8.5.3 Remuneration and Appraisal Committee

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

Main authorities and duties:

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

In 2009, the Remuneration and Appraisal Committee considered and passed the proposals relating to the termination of the Company's restricted A Share Incentive Scheme, the determination of the total amount of salary of China Merchants Bank for 2008, the establishment of salary risk allowances, the remuneration package for the secretary of the Committee of Discipline Inspection, the third round of grant of H Shares Appreciation Rights Incentive Plan for the senior management, the formation of implementation and appraisal rules for H Shares Appreciation Rights Incentive Plan, the implementation of Proposal for Adjusting the Number of Grant and exercise Price for Phase I and Phase II of H Shares Appreciation Rights based on the Profit Appropriation Plan for the Year 2008. In addition, the committee also reviewed report on the remuneration package of senior management for the year 2008.

The Remuneration and Appraisal Committee reviewed the remuneration package of the independent non-executive directors, external supervisors and senior management and the second round of grant under the H Shares Appreciation Rights Incentive Plan disclosed in the annual report for 2009 and was of the view that they were in line with the implementation of the Company's relevant polices on remuneration management system, remuneration packages and incentive plans.

During the reporting period, the Remuneration and Appraisal Committee held two physical meeting. The attendance record is as follows:

Member	Number of meetings attended/ Number of meetings held
Independent Non-Executive Directors	
Wu Jiesi (Chairman)	2/2
Liu Yongzhang	2/2
Yi Xiqun	2/2
Non-Executive Directors	
Li Yinquan	2/2
Fu Junyuan	1/2

8.5.4 Risk Management Committee

The members of the Risk Management Committee are Hong Xiaoyuan (chairman), Wang Daxiong and Sun Yueying (all being non-executive directors), Li Hao (executive director), and Yi Xiqun (independent non-executive director).

Main authorities and duties:

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

In 2009, the Risk Management Committee considered and passed the proposals on the write-off of large amount of bad debts and loans for the first half of 2009, the write-off of large amount of bad debts and loans for the third quarter of 2009, the proposals on Recognition of Responsibility and Treatment of Doubtful Debts and Assets Written-off in 2008, the formulation of Administrative Measures for Consolidated Statements and for Reputation Risk Management. The Risk Management Committee also studied and reviewed the reports on credit risk and market risk for 2008 as well as for the first, second and third quarter of 2009, the report on the write-off of bad debts for 2008, the report on the implementation of New Basel II Capital Accord for 2008 and the implementation progress for 2009, the report on the medium-term plan on the capital management for 2009 to 2011.

During the reporting period, the Risk Management Committee held 4 physical meetings. The attendance record of the meetings is as follows:

Member	Number of meetings attended/ Number of meetings held
Non-Executive Directors	
Hong Xiaoyuan (Chairman)	4/4
Wang Daxiong	3/4
Sun Yueying	4/4
Executive Director	
Li Hao	4/4
Independent Non-Executive Director	
Yi Xiqun	3/4

8.5.5 Audit Committee

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

Main authorities and duties:

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

In 2009, the Audit Committee considered and approved the annual report for 2008 and the interim report for 2009, the auditor's review reports on the interim financial reports for 2008 and 2009 respectively, the self-assessment report on internal control for 2008, the Provisional Measures for Appointment of Annual Auditors, the proposal on formulating the Basic Requirement on Internal Control (the Second Edition). The Audit Committee also studied and reviewed the management's report on the operations and the progress of significant matters of the Company for 2008, the auditor's report on auditing for 2008, the internal audit department's report on auditing work for the first half of 2009 and the auditor's report on auditing plan for 2009.

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

1. Before the auditors commenced the annual audit, the 2009 audit plan of the Company was discussed with auditors and the Company's financial statements for 2009 were considered. The Committee also issued a written consent agreeing to submit the financial statements to the auditors for annual audit.

2. In the course of conducting annual audit and after a preliminary audit opinion being issued by the external auditors, the Audit Committee reviewed the management's report on the operations and the progress of significant matters of the Company for 2009. The Audit Committee exchanged opinions on the significant matters and the audit progress with the external auditors conducting annual audit and reviewed the financial statements of the Company again. The Audit Committee then made written opinions for the above issues.

3. Before the annual meeting of Board of Directors commenced, the Audit Committee voted on and made a resolution on the Company's Annual Report for 2009 which was submitted to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and issued a conclusion report on the audit works performed by the external auditors in respect of the Company's financial statements for the year 2009 to the Board of Directors.

During the reporting period, the Audit Committee held 3 physical meeting and 4 meeting by way of written resolutions. The attendance record is as follows:

Member	Number of meetings attended/ Number of meetings held
Independent Non-Executive Directors	
Liu Hongxia (Chairman)	7/7
Chow Kwong Fai, Edward	7/7
Yan Lan	7/7
Non-Executive Directors	
Sun Yueying	7/7
Ding An Hua Edward	7/7

8.5.6 Related-Party Transactions Control Committee

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

Main authorities and duties:

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

In 2009, the Related Party Transactions Control Committee considered and approved the report on related transactions for 2008, the audit report on related transactions for 2008, the name list of related parties for 2009 and resolutions on substantial related party transactions with COSCO Container Lines Company Limited, China Merchants Property Development Co., Ltd., COSCO Bulk Carrier Co. Ltd., China Merchants Securities Co., Ltd., China Ocean Shipping (Group) Company, China Shipping (Group) Company, and China Nanshan Development (Group) Inc. In addition, the committee also studied and reviewed management plans on related party transactions for 2009.

During the reporting period, the Related-Party Transactions Control Committee held 1 physical meeting, 8 meetings by way of written resolutions. The attendance record is as follows:

Member	Number of meetings attended/ Number of meetings held
Independent Non-Executive Directors	
Chow Kwong Fai, Edward (Chairman)	9/9
Wu Jiesi	9/9
Liu Hongxia	9/9
Non-Executive Director	
Hong Xiaoyuan	9/9
Executive Director	
Zhang Guanghua	9/9

8.6 Board of Supervisors

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

8.6.1 Composition of the Board of Supervisors

The Company's Board of Supervisors comprises 9 members, including 2 external supervisors, 4 shareholder representative supervisors and 3 employee representative supervisors. The Nomination Committee and the Supervision Committee are established under the Board of Supervisors. Subsequent to Mr. Chen Haoming's resignation on 21 July 2009, selection of the alternative candidate for supervisor is still in progress, and hence now the Board of Supervisors only has 8 members.

8.6.2 How the Board of Supervisors performs its supervisory duties

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

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

On 20 April 2009, the 12th Meeting of the Seventh Session of the Board of Supervisors of the Company was convened by way of written resolutions. 9 out of the 9 supervisors eligible for voting voted at the meeting. At this meeting, they considered and approved the resolutions on changes in accounting policies and accounting estimates for the year 2008.

From 23 April to 24 April 2009, the 13th Meeting of the Seventh Session of the Board of Supervisors of the Company was convened in Shenzhen. 7 out of the 9 eligible Supervisors were present at the meeting. At the meeting, the Work Report of the President for the year 2008, the text and the summary of the Annual Report for the year 2008, the Final Account Report for the year 2008 and the Financial Budget Report for the year 2009, the profit appropriation plan for the year 2008, the Conclusive Report on the Audit Result in Respect of the Company's Financial Statements for the year 2008, the Conclusive Report on the Audit Result in Respect of the Company's Financial Statements for the year 2008 issued by KPMG, the Self-evaluation Report on the Internal Control in relation to the Board of Directors for the year 2008, the resolution on amendments to the Articles of Association of the Company, the Work Report of the Board of Supervisors for the year 2008, the Work Plans of the Board of Supervisors for the year 2009 and the Appraisal Report on the Duty Performance of Directors in the year 2008 were considered and approved.

On 29 April 2009, the 14th Meeting of the Seventh Session of the Board of Supervisors was convened by way of written resolutions. 9 out of the 9 supervisors eligible for voting voted at the meeting. The First Quarterly Report of 2009 of the Company was approved at the meeting.

On 13 August 2009, the 15th Meeting of the Seventh Session of the Board of Supervisors was convened by way of video conference. 7 out of the 8 eligible Supervisors were present at the meeting. The resolution on allotment scheme of A shares and H shares of China Merchants Bank Co., Ltd. was considered and approved at the meeting.

From 27 August to 28 August 2009, the 16th Meeting of the Seventh Session of the Board of Supervisors of the Company was convened in Changchun. 6 out of the 8 eligible Supervisors were present at the meeting. The Work Report of the President for the first half of the year 2009, the text and the summary of the Interim Report for 2009 and the resolution on allotment scheme of A shares and H shares of China Merchants Bank Co., Ltd. (Revised) were considered and approved at the meeting.

On 30 October 2009, the 17th Meeting of the Seventh Session of the Board of Supervisors was convened by way of written resolutions. 8 out of 8 supervisors eligible for voting voted at the meeting. The Third Quarterly Report of 2009 of the Company was considered and approved at the meeting.

On 16 November 2009, the 18th Meeting of the Seventh Session of the Board of Supervisors was convened by way of written resolutions. 8 out of the 8 supervisors eligible for voting voted at the meeting. At the meeting, the Resolution on the Grant of H Share Appreciation Rights at Phase III to the Senior Management of China Merchants Bank was considered and approved, and an audit opinion was issued for the resolution.

In 2009, the Company convened 3 general meetings and 17 meetings of the Board of Directors. Supervisors attended the general meeting and were present at the meetings of the Board of Directors as non-voting delegates, and supervised the law and regulation compliance, voting procedures of the General Meeting and Board of Directors, and Directors' attendance at the general meeting and meetings of the Board of Directors.

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

In April 2009, the Board of Supervisors reviewed the Internal Audit Report for the year 2008, the Audit Report on Related Party Transactions for 2008, the Report on Quality of Credit Assets of the Bank for 2008 and Analysis on Movement Trend in Loans for the First Quarter of 2009, and the Report on Merger and Acquisition, Integration and Current Operation of Wing Lung Bank. In addition, the Board of Supervisors also reviewed the Report on Cases Prevention for 2008, the Report on Operation of Credit Center for Small-sized Enterprises and some other written reports.

In May 2009, the Board of Supervisors visited Nanchang Branch and carried out research and investigation on issues regarding loan origination, the development of internal control and cases prevention for the period from January to April of 2009.

In July 2009, considering the changes in macroeconomics, the Board of Supervisors visited Lanzhou Branch and carried out research and investigation on issues regarding the branch's implementation of the credit policies promulgated by the head office and the credit of small-sized enterprises.

In October 2009, considering the second transformation strategy promulgated by the head office, the Board of Supervisors visited Suzhou Branch and carried out research and investigation on issues regarding role specification of Suzhou Branch and credit center for small-sized enterprises and the cooperation between the two departments, the growth rate, industry mix and pricing structure of loans for the first 9 months of 2009, income structure, trends of changes in cost/income ratio and other factors for 2009.

In October 2009, the Board of Supervisors studied credit center for small-sized enterprises to review its development strategy, sales model and operation.

8.6.5 Operation of The Specialized Committees of the Board of Supervisors

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

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

On 21 July 2009, the 1st Meeting of the Seventh Session of the Nomination Committee under the Board of Supervisors was held in Lanzhou. At the meeting, the committee conducted preliminary examination on qualifications of the candidates for supervisors.

Members of the Supervision Committee are Shao Ruiqing (chairman), Chen Haoming (resigned on 21 July 2009) and Zhou Song. The major duties of the Supervision Committee are to carry out inspection on CMB's financial position, assess the duty performance of directors and senior management, and conduct supervision and investigation in the audit of resigning directors and senior management.

On 15 April 2009, the 2nd Meeting of the Seventh Session of the Supervision Committee under the Board of Supervisors was held in Shenzhen. At the meeting, the committee considered the Appraisal Report on the Duty Performance of Directors in the year 2008, proposed opinions on amendments, and agreed to submit the report to the Board of Supervisors for consideration after the Appraisal Report on Duty Performance of Directors in the year 2008 having been amended and supplemented.

Given that there will be more meetings to be held by special committees under the Board of Directors, the Supervision Committee under the Board of Supervisors will selectively attend the meetings held by special committees under the Board of Directors as non-voting delegates.

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

The senior management of the Company provides the Board of Directors with adequate explanation and sufficient information to enable the Board of Directors to make informed assessment on the financial and other information submitted to it for approval. The directors of the Company acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2009 to present a true view of the operating results of the Company. So far as the directors are aware, there are no material uncertainties related to events or conditions that may have a significant negative effect on the Company's ability of sustainable operation.

8.8 Appointment of accounting firm

According to the resolutions passed at the 2007 Annual General Meeting, the Company appointed KPMG Huazhen Certified Public Accountants as the domestic auditor for the years 2008 and 2009 and KPMG Certified Public Accountants as the international auditor for the years 2008 and 2009.

The financial statements of the Group for the year 2009 prepared under PRC GAAP were audited by KPMG Huazhen Certified Public Accountants, and the financial statements for the year 2009 prepared under International Financial Reporting Standards were audited by KPMG Certified Public Accountants. The total audit fees amounted to approximately RMB9.36 million (including fees for the audit on the financial statements of our overseas branches and subsidiaries). The statements made by KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants about their reporting responsibilities on the financial statements are set out in the Auditors' Reports in the Annual Reports of the Company's A Shares and H Shares, respectively. Apart from the audit services, the non-audit service fee for the year paid by the Group to KPMG Certified Public Accountants was RMB4.01 million, mainly covered services in respect of (i) interim financial statements; (ii) results announcement of H Shares; (iii) tax consultation; and (iv) placement related services. KPMG Certified Public Accountants and KPMG Huazhen Certified Public Accountants have acted as the Company's auditors for more than 3 years.

8.9 Internal control and internal audit

8.9.1 Description of a complete, reasonable and effective internal control system

Under the requirements of the relevant laws, regulations and rules, and taking into account the asset structure, operation mode and business characteristics of the Company, the Company has established a complete corporate governance structure of check and balance including the general meeting, the Board of Directors, the Board of Supervisors and the senior management. The Board of Directors is responsible for ensuring the sound establishment and efficient implementation of the internal control of the Company. The Board of Supervisors is responsible for monitoring the establishment and implementation of the internal control by the Company. The senior management is responsible for organizing the daily operation of internal control of the Company.

In respect of the management of the Company, considering the needs for internal management and risk management, the Company established an internal management structure with clear accountability, diversified specification, and well-defined responsibility, which involves all departments, management and staff. The Company established Internal Control Committee in the management as the platform for study, decision-making and negotiation regarding the internal control by the management. The Internal Control Committee is responsible for the study of significant matters and management measures relating to the Company's internal control. An Office is established directly under Internal Control Committee, being responsible for coordinating the establishment, implementation and daily processing of the Company's internal control. All departments of the Company are responsible for the establishment and execution of internal control system under their respective business lines. The Company's auditing department is responsible for comprehensive monitoring and assessment on implementation of internal control in all business lines and branch institutions. All levels of the management of the Company are responsible for implementation and monitoring of internal control system under their respective terms and references. All members of the staff are responsible for feedback of significant information regarding to measures of internal control and their implementation.

During the reporting period, the Company has strengthened the fundamental system of corporate governance; enhanced the mechanism of periodic communication among "the general meeting, the Board of Directors, the Board of Supervisors and the senior management" and the designated committees, as well as the mechanism of check and balance decision-making process; improved its authorization management system by strictly implementing hierarchical delegation and supervision mechanism; strengthened the implementation of internal control system, and linked the system with performance assessment so as to strictly implement accountability while effectively carry out the incentive scheme. Based on the principles of risk, significance and effectiveness, the Company regularly identifies and assesses risks related to business operation and evaluates the status of internal control so as to ensure rigorous implementation of internal control policies at all levels, including decision-making, execution, supervision and feedback, ensuring the legal compliance of operation and management and the safety of assets. This constitutes the internal control mechanism featuring scientific decision, sound functioning, effective supervision and comprehensive governance that covers all institutions, departments and positions.

The Company has put in place an effective risk control system, which ensures that risks incurred in operation and the realization of internal control targets are within the Company's risk appetite. During the reporting period, the Company, adhering to the principle of putting regulations and internal control first, revised the basic requirements for internal control, Administrative Measures of Internal Control and Evaluation of Meeting, among other regulations. The Company's branches were required to evaluate internal control and comprehensively review their current management status of internal control. The Company developed systems and tools for the management of operational risk pursuant to the New Basel Capital Accord and relevant requirements of the CBRC; carried out bank-wide procedure reforms and optimized resources allocation according to the principle of separation of the front office, core forces and back office, streamlined and improved procedures of credit, accounting and retail; continued to upgrade the hardware facilities and software systems of computers so as to enhance the support and control of IT technology on operating activities and risk management. The Company launched special audit survey covering credit, accounting and finance; carried out thorough examinations of each business segment of the Company including investigations into anti-money laundering and operational risk to improve the internal control system. With the improvement of State legal system and its own development, the Company will continue to improve its internal control and make it more comprehensive, rational and effective.

The Company standardized its accounting practice, thus ensuring the authenticity and completeness of accounting information, the authenticity and fairness in preparing its financial statements. The Company complied with the principles of authenticity, accuracy, completeness and timeliness in information disclosure, ensuring effective communications within the Company and that between the Company and external parties. At the 54th meeting of the seventh session of the Board of the Company, the "Accountability Measures for Major Errors in Information Disclosure in Annual Reports of China Merchants Bank Co., Ltd" was considered and approved to increase the accountability of the person(s) responsible for information disclosure in annual reports and thus further improved its regulated operation level. During the reporting period, the Company was not aware of any material error in information disclosure in its annual report.

As reviewed by the Board of Directors of the Company, no significant defects have been identified in the Company's internal control system in terms of completeness, reasonableness and effectiveness. KPMG Huazhen issued an assurance report on "Self-Assessment of Internal Control by the Board of Directors of China Merchants Bank Co., Ltd. 2009".

8.9.2 Internal audit

The Internal Auditing Department of the Company audits all the business and management activities of the Company, and independently inspects and assesses risk management and internal control of the Company and provides improvement suggestions to the management. The Company has set up a sound internal auditing system. It has established four auditing departments in Beijing, Shanghai, Shenzhen and Xi'an, which are directly under the administration of the head office, and auditing divisions in each branch. It has established an internal auditing mechanism covering general rules, operation rules and working standards based on the Internal Auditing Prospectus of China Merchants Bank Co., Ltd.. It has also established an inspection system combining on-site auditing and off-site auditing as well as coordinating head office auditing and branch auditing. The internal auditing department of the Company, which is independent of the daily operating and management units, reports the audit results directly to the Board of Directors, the Board of Supervisors and the President. At the same time, the Head Office vertically manages all the auditing departments and the auditing divisions in each branch.

In 2009, the risk assessment performed by the internal auditing department of the Company through on-site and off-site auditing covered lending business, treasury business, international business, fee-based businesses, accounting and financial reporting, retail banking, and information system of the Company. The details of auditing included: compliance with applicable laws, regulations and internal policies and procedures of the Company; validity of the risk management policies and procedures of the Company; coverage and validity of the internal control system of the Company; whether the defects found in the auditing process are corrected accordingly, etc.

The Company lays stress on rectifying the problems discovered during internal audit. It has set up a special mechanism for audit rectification and carried out assessment with a rectification ratio, requiring the responsible higher management departments to jointly implement the rectification with the units with problems. Meanwhile, the Head Office focused on supervising, directing and assisting the rectification work on the internal control management of the units with relatively more problems and poor rectification results. Through continuous inspection and evaluation, the Internal Auditing Department of the Company has discovered, prevented and eliminated relevant risk hazards, which boosts establishment of the self-restriction, self-improvement and self-discipline mechanism of internal control and compliance as well as the improvement of the internal control system of the whole Company.

8.10 Misconduct reporting and monitoring

In 2009, the Company reported no internal cases or external malignant cases of consummated theft and robbery and severe accidents. During the reporting period, the Company adopted the following major preventive measures:

1. Emphasis and fulfillment of case prevention accountability. The head office signed a Letter of Responsibilities for Corruption Fighting, Security Guard and Case Prevention in 2009 with 38 branches, 37 departments of the head office and relevant direct reporting units respectively. The Letter of Responsibilities was signed by all departments at all levels, with the liability for corruption fighting and case prevention being further elaborated. The Company carried out one-vote veto for case prevention and specified the responsibilities and targets of head persons in terms of case prevention and internal control, which promoted the bank-wide case prevention.

2. Continuous improvement of the discipline integrity and case prevention consciousness of all our employees by education. Firstly, the Bank launched "special education activities on cases of incompliance of the employees" to strengthen the case prevention consciousness of the employees. Secondly, we educated new employees in terms of discipline integrity with cases and carried out extensive and concentrated training. Thirdly, we held "exhibitions for education on being alert to corruption fighting in the banking industry". Fourthly, we implemented general education by internal publications. We published Inspection Express No. 145 in the year, in which cases in the industry were reported and risk hazards identified were examined in a timely fashion, and risk warnings were issued to the Bank to prevent cases from happening.

3. Continuous inspections on case risks and strict preventions of internal fraud cases. According to the relevant arrangements of CBRC, based on inspection on operational risks in 2008, the Company has continuingly carried out risk inspections and special inspections on cases in terms of key businesses, links and procedures aiming at preventing such cases. Despite discovering no internal cases during inspection, we discovered some case risk hazards and management deficiency. For those problems discovered during inspection, those can be rectified had been rectified by the branches; while for those cannot be rectified immediately, specific rectification measures and timetable were prepared.

4. Supervision on execution of three measures. In 2009, the Company organized every branch to supervise execution of the three systems including "Measures for Centralized Procurement of China Merchants Bank Co., Ltd.", "Administrative Rules of China Merchants Bank Co., Ltd. for Clean Procurement" and "Measures for Handling Violations by Account Managers and Tellers of China Merchants Bank Co., Ltd".

5. Strengthened management of abnormal behaviors of employees. In 2009, based on summarizing experience in managing the abnormal behaviors of its employees, the Company held a "seminar on management of abnormal behaviors of the employees of the Bank" and revised and issued the Administrative Rules of China Merchants Bank Co., Ltd. for Management of Abnormal Behaviors of Employees (the second edition).

6. Investigation of and punishment for misconduct. In 2009, the Bank investigated and punished the misconduct with regard to auditing and other internal controls and conducted integrity reports in a timely manner.

8.11 Communications with shareholders

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

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

8.12 Information disclosure and investor relations

Information disclosure

The Company disclosed significant information in a responsive, accurate, truthful and complete manner pursuant to relevant provisions of laws and regulations on information disclosure, so that the shareholders have equal chance of access to the relevant information. Apart from fulfilling legal obligation of information disclosure, the Company also takes the initiatives in information disclosure to improve its transparency.

In 2009, the Company published over 220 documents, representing more than 1,700,000 words, on Shanghai Stock Exchange and Hong Kong Stock Exchange, including regular reports, temporary announcements, documents for corporate governance, circulars to shareholders, proxy forms and reply slips, etc.

In preparing regular reports, the Company paid attention to taking the initiative in information disclosure, such as incorporating details of foreign currency bond investments, analysis on credit risks of key industries and SMEs in the financial crisis and corresponding measures, operations of Wing Lung Bank, progress of integration and other hot issues which investors paid close attention to in its regular reports, thus increasing the transparency of disclosure of regular reports and better satisfying the demand of investors.

In order to perform its social responsibilities as a corporate citizen in an active manner, demonstrate its role of performing social responsibilities as a listed company and further boost the establishment and improvement of its internal control system, the Company has also distributed the report of social responsibilities and the self-assessment report of the Board of Directors regarding internal control while disclosing its annual report starting from 2008.

Through making the above efforts, the 2008 Annual Report of the Company won the gold award in "the 2009 Best Corporate Governance Information Disclosure Award" sponsored by Hong Kong Institute of Certified Public Accountants. The review panel noted that the Company had a strong consciousness of taking initiative in disclosure and made very clear and effective disclosure in terms of its governance structure, financial operations analysis, analysis on operations of Wing Lung Bank, risk management structure administration and strategies, and duties of special committees of the Board of Directors, which significantly helped investors to gain a deeper understanding of the Company. The Annual Report of the Company also won the Bronze Prize for Disclosure of Financial Information and the Award of Excellence for Chairman Address in the "The ARC International Annual Report Award" which is known as the "Academy Awards for Annual Reports", and the Award of Excellence in "The International GALAXY Award" of MerComm, Inc., an international communications appraiser.

Investor relations

The Company exerted its efforts to improve investor relations management and continued to improve its communication with investors. In the reporting period, the Company received 205 visits from domestic and overseas investors, attended 38 investment promotion conferences sponsored by well-established investment banks and securities companies worldwide, held 4 performance promotion conferences for performance report release, and staged 2 global and domestic road shows. The management team of the Company had nearly 100 meetings with domestic and overseas institutional investors. Through the above promotional activities, the management of the Company made sincere communication with institutional investors. The Company consulted with minority shareholders by email and telephone etc. on a daily basis, and answered their questions dutifully, patiently and responsively and in a timely manner. The Company received over 980 telephone enquiries and handled 573 online investor messages throughout the year. The Company also increased columns of "FAQ" and "Investor Calendar" in its website, thereby further enriching the contents of the web page of investor relations and facilitating communication between investors and the Company.

Upon announcing its rights issue program, the Company held a telephone conference for global investors and security analysts in relation to the rights issue, whereby participants of the capital market were aware of the objectives of the rights issue of the Company and the reasons of raising funds by means of rights issue and the questions raised by investors and analysts were answered. Timely and sufficient communications with investors generated positive results and enhanced the understanding and supporting of investors in respect of the fund-raising through rights issue by the Company.

Through extensive, careful and effective work, the investor relationship management of the Company has won widespread recognition. During the reporting period, the Company won a lot of honors. For example, the Company was nominated for the Best Progress Honor for Investor Relations in China and was one of the 23 listed companies winning awards of excellence from *IR Magazine*, a British publication. The Company won the "Best Award for Investor Relations" in the "2009 Best Asian Companies" sponsored by *Finance Asia*; Mr. Lan Qi, Secretary of the Board of Directors of the Company, was the champion in the "Best Award for Board Secretaries of Golden Ox Companies in 2008" in the "2008 Top 100 Golden Ox Listed Companies" sponsored by *China Securities Journal*. Mr. Lan Qi won the award of "Top 100 Board Secretaries of Listed Companies" again in the "2008 Chinese Listed Company Value" sponsored by *Securities Times*.

8.13 Independent operation of the Company

The Company has no controlling shareholders and de facto controllers. As a commercial bank, the Company maintains full independence in terms of business, staff, assets, organization and finance under the regulation of PBOC and CBRC. The Company is an independent legal person responsible for its own profits and losses, running independent and complete business and is capable of independent business operation.

Get prepared for a second transformation

In 2009, given the increasingly stringent capital constraint, the rapid development of direct financing, the growing marketization of interest rates and exchange rates and in line with the development trend of the modern banking sector, the Bank, on the basis of its first transformation (that involved expediting the development of retail business, fee-based businesses and SME business and a strategic business adjustment), has led its domestic peers in adopting a change in the operation mode, that is, making a second transformation in the view of reducing capital consumption, uplifting the loan pricing, controlling financial cost, increasing high net-wealth customers, and ensuring risks control, so as to implement an the intensive form of operation, and maximize operating efficiency.

Innovation

9.1 Principal business activities

The Company is engaged in banking and related financial services.

9.2 Financial highlights

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

9.3 Reserve

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

Distributable Reserve

The details of the distributable reserve of the Company are set out in Note 39 to the financial statements.

9.4 Profit appropriation

Proposal of the profit appropriation for the year 2009

As stated in the audited financial statements of the Company for 2009, 10% of the profit after tax of RMB17.651 billion, i.e. RMB1.765 billion, was transferred to the statutory surplus reserve, while 1% of the total amount of the increased risk assets in this reporting period, namely RMB4.100 billion was appropriated to the general reserve. Profit distributable to shareholders for the year was RMB30.777 billion.

Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposed to declare a cash dividend (tax included) of RMB2.10 for every 10 shares to all shareholders of the Company or a total cash dividends of approximately RMB4.531 billion, payable in RMB for A Share-shareholders and in HKD for H Share-shareholders. The actual distribution amount in HKD will be calculated based on the average RMB/HKD benchmark rates released by PBOC for the week before the date of the general meeting (inclusive). The retained profit will be carried forward to the next year. The above proposal of profit appropriation is subject to consideration and approval at the 2009 annual general meeting of the Company.

In accordance with the "Enterprise Income Tax Law of the PRC" and its implementation regulations which took effect from 1 January 2008, the Company is obligated to withhold and pay enterprise income tax on behalf of non-resident enterprise shareholders at a tax rate of 10% when the Company distributes any dividend or bonus to its non-resident enterprise shareholders whose names appear on the register of members for H Share of the Company. As such, any H Shares of the Company registered other than in the name(s) of individual(s), including HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups, shall be deemed as shares held by non-resident enterprise shareholder(s) and the enterprise income tax shall be withheld from any dividend or bonus payable thereon.

The record date for the determination of entitlements to the proposed dividends and the period for the closure of register of members will be set out in the notice convening the annual general meeting of the Company. The Company shall comply with the relevant rules and regulations to withhold and pay the enterprise income tax on behalf of the relevant shareholders whose names are listed in the register of members of H Share of the Company as of the record date.

Dividend payout for the previous 3 years:

(Unit: RMB million)

Year	Total cash dividends (Tax included)	Net profit for the year	Payout ratio (%)
2006	1,764	6,794	25.96
2007	4,117	15,243	27.01
2008	1,471	21,077	6.98(2)

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

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

Details of the implementation of the profit appropriation plan of 2008

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

9.5 Donations

The total amount of the charitable donations and other donations contributed by the Company and its employees for the year ended 31 December 2009 was RMB10,947,500.

9.6 Fixed assets

Changes in fixed assets as at 31 December 2009 of the Company are set out in note 22 to the financial statements in this annual report.

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

Shareholdings in non-listed financial companies

Name of companies	Initial investment (RMB'000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period (RMB'000)	Profits/ (losses) for the reporting period (RMB'000)	Changes in owners' equity for the reporting period (RMB'000)	Origination of shares
Wing Lung Bank Ltd.	32,081,937	100.00	231,028,792	30,313,858	489,493	589,321	Equity investment
CMB International Capital Corporation Ltd.	250,520	100.00	250,000,000	250,520	4,871	857	Ownership upon establishment by promotion
CMB Financial Leasing Co., Ltd.	2,000,000	100.00	N/A	2,000,000	89,856	89,856	Ownership upon establishment by promotion
China Merchants Fund Management Co., Ltd.	190,914	33.40	70,000,000	301,218	39,772	47,327	Equity investment
Taizhou City Commercial Bank Co., Ltd.	306,671	10.00	90,000,000	345,708	–	–	Equity investment
China UnionPay Co., Ltd.	155,000	3.80	110,000,000	155,000	3,400	–	Equity investment
EPS Company (Hong Kong) Ltd.	HK$8,400	2.10	2	HK$8,400	–	–	Equity investment
Yantai City Commercial Bank Corporation Ltd.	189,620	4.99	99,800,000	209,600	–	–	Equity investment
Bank Consortium Holdings Ltd.	HK$20,000	13.33	20,000,000	HK$60,742	HK$4,957	HK$91	Equity investment
Joint Electronic Teller Services Ltd.	HK$2,000	2.88	20,000	HK$8,336	HK$1,000	–	Equity investment
Hong Kong Life Insurance Ltd.	HK$70,000	16.67	70,000,000	HK$66,081	HK$6,352	HK$4,404	Equity investment
BC Reinsurance Ltd.	HK$21,000	21.00	21,000,000	HK$41,921	HK$17,788	–	Equity investment

Name of companies	Initial investment (RMB'000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period (RMB'000)	Profits/ (losses) for the reporting period (RMB'000)	Changes in owners' equity for the reporting period (RMB'000)	Origination of shares
Professional Liability Underwriting Services Ltd.	HK$810	27.00	810,000	HK$4,936	HK$2,307	HK$137	Equity investment
Equity Underwriters Ltd.	HK$2,173	40.00	1,580,000	HK$0 (Note 1)	HK$(1,652)	–	Equity investment
Hong Kong Precious Metals Exchange Ltd.	HK$136	0.35	136,000	HK$136	–	–	Equity investment
AR Consultant Service Ltd.	HK$4,023	8.70	100,000	HK$5,639	–	–	Equity investment
Luen Fung Hang Life Ltd.	MOP6,000	6.00	60,000	MOP6,000	–	–	Equity investment
China Insurance Brokers Co., Ltd.	HK$570	3.00	N/A	HK$570	–	–	Equity investment
I-Tech Solutions Ltd.	HK$3,000	50.00	3,000,000	HK$4,538	HK$77	–	Equity investment

Notes: (1) At the end of the period, impairment losses for such investment were provided in full.

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

Securities investments

Stock code	Abbreviation	Currency	Initial investment (RMB)	Shareholdings at end of period (shares)	Carrying value at end of period (RMB)	Percentage of total investment at end of period (%)	Profits/ (losses) for the reporting period (RMB)
00388.HK	Hong Kong Exchanges and Clearing Ltd.	HK$	416,891	983,500	137,099,900	35.44	53,134,577
03988.HK	Bank of China Ltd.	HK$	35,864,798	12,000,000	50,280,000	13.00	–
00939.HK	China Construction Bank Corporation	HK$	7,706,971	3,080,000	20,512,800	5.30	–
02778.HK	Champion Real Estate Investment Trust	HK$	31,754,586	6,164,000	20,217,920	5.22	–
00011.HK	Hang Seng Bank Ltd.	HK$	114,987	86,667	9,958,038	2.57	–
02388.HK	BOC Hong Kong (Holdings) Ltd.	HK$	5,902,031	687,000	12,146,160	3.14	–
00005.HK	HSBC Holdings plc	HK$	28,895,607	350,409	31,326,565	8.10	(199,489)
01398.HK	Industrial and Commercial Bank of China Ltd.	HK$	14,775,263	3,000,000	19,290,000	4.99	–
00996.HK	Oriental Ginza Holdings Ltd.	HK$	25,670,000	10,000,000	17,200,000	4.44	–
01898.HK	China Coal Energy Company Ltd.	HK$	4,529,729	527,534	7,490,983	1.94	–
Other securities investments at end of period		HK$	31,573,585	1,655,791	61,349,793	15.86	721,906
Total		**HK$**	**187,204,448**	**38,534,901**	**386,872,159**	**100.00**	**53,656,994**

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

2. Other securities investments refer to those other than the top 10 holdings.

9.8 Shareholdings and trading in equity interest of other listed companies

During the reporting period, save as the completed acquisition of the equity interest in Wing Lung Bank as disclosed herein, the Company had not held or traded the equity interest of other listed companies.

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

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

9.10 Pre-emptive rights

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

9.11 Retirement and welfare

Details about retirement welfares provided by the Company to its employees are set out in note 32 to the financial statements in this annual report.

9.12 Principal customers

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

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

Use of fund raised from H Shares

The Company issued 2,200,000,000 H Shares at face value per share of RMB1 at the price of HK$8.55 per share on 22 September 2006 which were listed and tradable on the Hong Kong Stock Exchange, and through the exercise of the over-allotment option, issued 220,000,000 H Shares of RMB1 per share at the price of HK$8.55 per share on 27 September 2006 which were listed and tradable on the Hong Kong Stock Exchange, raising net proceeds of RMB20.505 billion. All the proceeds had been received as of 5 October 2006. According to the commitments stated in the Prospectus, the funds raised were used completely as additional capital to enhance capital adequacy ratio and the capacity of risk resistance.

Use of funds raised from the issue of RMB30 billion subordinated debts

According to the documents of "Approval of Issuing Subordinated Debts by China Merchants Bank" (Yin Jian Fu【2008】No. 304) issued by CBRC and "Determination on Administration Approval by the People's Bank of China" (Yin Shi Chang Xu Zhun Yu Zi【2008】No. 25), the Company successfully issued subordinated debts in the amount of RMB30 billion to institutional investors in the PRC interbank bond market on 4 September 2008.

The funds raised from the issue of subordinated debts were mainly used as additional capital to consolidate the capital base, to strengthen the supplementary capital and to enhance capital adequacy of the Company, in accordance with the applicable laws and approvals granted by the regulatory authorities.

Use of funds raised from the rights issue of A shares and H shares in 2010

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

Major investments not financed by raised fund

As at the end of 2009, the total amount of fund invested in Shanghai Lujiazui Project was RMB987 million, of which RMB335 million was invested during the reporting period.

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

As at 31 December 2009, the interests and short positions of the Directors and Supervisors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the SFO), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and Supervisors of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

Name	Position	Class of shares	Long/short position	Capacity	No. of shares	Percentage of the relevant share held in issue (%)	Percentage of all issued share (%)
Zhou Song	Supervisor	A	Long position	Beneficial owner	43,550	0.00028	0.00022

Save as disclosed above, as at 31 December 2009, none of the Directors or Supervisors held or was deemed to hold any interests or short positions in the shares and underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the Directors or Supervisors to the Company and the Hong Kong Stock Exchange pursuant to the Model Code nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

9.15 Directors' interests in business competition

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

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

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

9.17 Contractual rights and service contracts of directors and supervisors

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

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

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

9.19 Confirmation of the independence of independent non-executive directors

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

9.20 Undertakings made by the Company

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

9.21 Significant connected transactions

9.21.1 Overview of connected transactions

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

9.21.2 Non-exempt continuing connected transactions

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

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

CIGNA & CMC Life Insurance

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

China Merchants Steam Navigation Company Limited is one of the promoters and a substantial shareholder of the Company. CM Group holds 100% equity interest in China Merchants Steam Navigation Company Limited and currently holds approximately 18.10% of indirect equity interest in the Company (including those interest deemed to be held through connected companies). CM Group is an indirect controlling shareholder of Shenzhen Dingzun Investment Advisory Company, Ltd. ("Dingzun"), which in turn holds 50% equity interest in CIGNA & CMC Life Insurance. Pursuant to the Hong Kong Listing Rules, CIGNA & CMC Life Insurance is an associate of the connected person of the Company and therefore a connected person of the Company.

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

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

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

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

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

The annual cap of the continuing connected transactions between the Company and CIGNA & CMC Life Insurance for 2009 was set at RMB500,000,000 which was less than 2.5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, those transactions would accordingly be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2009, the aggregate value of related transactions between the Company and CIGNA & CMC Life Insurance amounted to RMB85,120,000.

CMFM

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

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

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

The annual cap of the continuing connected transactions between the Company and CMFM for 2009 was set at RMB800,000,000 which was less than 2.5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, those transactions would accordingly be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2009, the aggregate value of related transactions between the Company and CMFM amounted to RMB106,460,000.

CM Securities

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

China Merchants Steam Navigation Company Limited, a wholly owned subsidiary of CM Group, is one of the promoters and a substantial shareholder of the Company. CM Group currently holds approximately 18.10% of indirect equity interest in the Company (including those interest deemed to be held through connected companies). As CM Group also holds a 45.88% equity interest in CM Securities, pursuant to the Hong Kong Listing Rules, CM Securities is an associate of the connected person of the Company and therefore a connected person of the Company.

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

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

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

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

The annual cap of the continuing connected transactions between the Company and CM Securities for 2009 was set at RMB1,000,000,000 which was less than 2.5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, those transactions would accordingly be subject only to the reporting and announcement requirements pursuant to Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2009, the aggregate value of related transactions between the Company and CM Securities amounted to RMB189,220,000.

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

(1) the transactions were conducted in the ordinary and usual course of business of the Company;

(2) the terms of the related transactions were fair and reasonable and in the interests of the Company and its shareholders as a whole;

(3) the transactions were entered into on normal commercial terms and conditions which were no more favorable than those to or from independent third parties; and

(4) the transactions were conducted in accordance with terms of relevant agreements.

The auditors of the Company have reviewed the above related transactions and submitted to the Board of Directors of the Company a letter setting out the following:

(1) the transactions were approved by the Board of Directors of the Company;

(2) the transactions were conducted in accordance with commercial principles and were in compliance with the pricing policies as stated in the relevant agreements;

(3) the transactions were conducted in accordance with terms of relevant agreements concluded by the Company; and

(4) the transactions did not exceed the aforesaid 2009 annual caps as approved by the Hong Kong Stock Exchange.

9.22 Material litigation and arbitration

During the reporting period, the Company had not been involved in any material litigation or arbitration cases. As at 31 December 2009, the Company was involved in the following litigation cases in its regular course of business: the number of pending litigation and arbitration cases in which the Company was involved totaled 1,589, with a total principal amount of approximately RMB1,082,586,600 and total interests of approximately RMB503,501,300. Of which, there were a total of 73 pending litigation and arbitration cases against the Company as at 31 December 2009, involving a total principal amount of approximately RMB337,649,800 and total interests of approximately RMB8,838,100. There were two pending cases each with a principal amount exceeding RMB100,000,000, involving an aggregate principal amount of approximately RMB261,910,000. None of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

9.23 Material contracts

None of the material contracts of the Company is involved in holding in custody or hiring or leasing any assets of other companies and vice versa which are outside the Company's normal scope of business. All guarantee contracts have been entered into in the course of the Company's regular guarantee businesses within the normal scope of operation. The Company is not aware of any illegal guarantee for its subsidiaries.

9.24 Significant event in respect of fund entrusting

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

9.25 Major activities in asset acquisition, disposal and reorganization

9.25.1 Progress of the acquisition of WLB

On 15 January 2009, the Company completed the compulsory acquisition of WLB which then became a wholly-owned subsidiary of the Company. WLB withdrew the listing of its shares on the Hong Kong Stock Exchange effective from 16 January 2009. For details of the acquisition, please refer to the announcements published by the Company on the newspapers and websites designated for disclosure of information.

For details of the operations of WLB and the progress of integration, please refer to the section headed "Business of WLB Group" in this report.

9.25.2 Progress of acquisition of CIGNA & CMC Life Insurance

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

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

The resolution regarding the acquisition was passed at the 2007 Annual General Meeting held by the Company on 27 June 2008, and is still subject to the approvals from relevant regulatory authorities.

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

9.25.3 Progress of acquisition of Tibet Trust

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

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

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

For details about the implementation of the Company's Share Appreciation Rights Incentive Scheme in 2009, please refer to the section "Directors, supervisors, senior management, employees and branch operational structure".

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

China Merchants Bank Co., Ltd.
Explanatory notes and independent opinions of the
Independent non-executive directors towards the Company's guarantees

In accordance with Zheng Jian Fa【2003】No. 56 of the China Securities Regulatory Commission and the relevant provisions of the Shanghai Stock Exchange, the independent non-executive directors of China Merchants Bank Co., Ltd. carried out a due review of the Company's guarantees for 2009 on an open, fair and objective basis, and their opinions are as follows:

After review, it was ascertained that the guarantee business of China Merchants Bank Co., Ltd. was approved by the People's Bank of China and the CBRC, and it is carried out in the ordinary course of business of banks as a conventional business. As at 31 December 2009, the balance of the Company's guarantee business (including irrecoverable letters of guarantees and shipping guarantees) was RMB86,156 million, up 24.77 % from the beginning of the year.

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

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

9.28 Use of funds by related parties

During the reporting period, neither the major shareholders of the Company nor their related parties had used any funds of the Company for non-operating purposes, and none of them had used the funds of the Company through any unfair related party transactions.

9.29 Compliance statement for corporate governance

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

9.30 Changes in accounting policies

Amendments have been made to "IFRS 8 – Operating Segment" in the way of presenting segment information. It requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The Group first adopted the abovementioned presentation method in its interim report 2009.

In addition, in its interim report 2009, the Group began to adopt IAS 1 – Presentation of Financial Statements (Revised in 2007) in relation to the new format of the consolidated income statement and the consolidated statement of changes in equity. The corresponding amounts caused by the abovementioned changes in presentation have been restated in the current year's financial report in accordance with the new way of presentation. Change in the way of presentation as above mentioned does not have any impact on gains or losses, total amount of income and expenditure, or net assets for any periods indicated.

The Group adopted International Financial Reporting Standard No. 7 (amendment) from its 2009 Annual Report onwards. As a result, more details about the measurement of fair value of the Group's financial instruments were disclosed, and the fair value of such financial instruments were classified into three levels in accordance with available market data at the time of measurement of the fair value. Pursuant to the transitional provisions of International Financial Reporting Standard No. 7 (amendment), the Group has not disclosed any relevant comparative figures.

The Group started to adopt IFRIC 13, Customer Loyalty Programme in the annual report for 2009. It requires that all reporting enterprises should allocate a part of the initial sales revenue to the loyalty programme and recognize those revenues. No prior-year information has been restated as the Group is of the opinion that the adoption of IFRIC 13 will not have significant impact on the Group.

9.31 Establishment and improvement of the management system regarding insider information and insiders during the reporting period

In order to regulate the management of the Company's insider information, enhance the confidentiality of insider information, maintain the principle of fairness of disclosing information and safeguard the legal interests of large number of investors, the Board of the Company approved the "Insider Information and Insider Management System of China Merchants Bank Co., Ltd.", expressly stipulating and regulating the scope of insider information and the insiders (including external information users), registration of insiders, confidentiality management of insider information and penalty on breaches of this system.

9.32 Compliance with Banking (Disclosure) Rules

The Company has prepared the financial statements in respect of H shares for the year 2009 in strict compliance with the Banking (Disclosure) Rules issued by Hong Kong Monetary Authority.

9.33 Review on annual results

KPMG Huazhen and KPMG Certified Public Accountants, our external auditors, have audited the financial statements of the Company prepared in accordance with the PRC Generally Accepted Accounting Principles and the International Accounting Standards respectively, and each has issued an unqualified audit report respectively. The Audit Committee of the Company has reviewed the results and financial report of the Company for the year ended 31 December 2009.

9.34 Annual general meeting and closure of register of members

The dates of the Company's 2009 Annual General Meeting, closure of register of members and other relevant matters will be separately announced by the Company.

9.35 Publication of annual report

The Company prepared the annual report in both English and Chinese versions in accordance with the International Accounting Standards and the Hong Kong Listing Rules. These reports are available on the website of Hong Kong Stock Exchange and the website of the Company. In the event of any discrepancies in interpretation between the English version and Chinese version, the Chinese version shall prevail.

The Company also prepared the annual report in Chinese in accordance with the PRC Generally Accepted Accounting Principles and the preparation rules for annual reports, which is available on the website of Shanghai Stock Exchange and the website of the Company.

By Order of the Board

Qin Xiao
Chairman of Board of Directors

13 April 2010

X Report of the Board of Supervisors

During the reporting period, the Board of Supervisors has fulfilled supervisory duties pursuant to the Company Law and Articles of Association of the Company.

Independent opinions on relevant matters from the Board of Supervisors:

Lawful operation

During the reporting period, the business activities of the Company complied with the Company Law, Commercial Banking Law and Articles of Association, and that the decision making procedures were lawful and valid. None of the directors and senior executives was found to have violated the relevant laws, regulations or the Articles of Association or had done anything detrimental to the interests of the Company or shareholders.

Authenticity of financial statements

KPMG Huazhen and KPMG audited the financial reports for 2009 in accordance with the PRC accounting standards and the international accounting standards respectively and have each produced a standard unqualified audit report, stating that the financial reports gave a true, objective and accurate view of the financial position and operating results of the Company.

Use of capital raised

The application of fund from the capital raised into specific projects was consistent with the committed uses as stated in the relevant prospectus.

Purchase and sale of assets

In respect of the material acquisition during the reporting period, the Board of Supervisors was not aware of any insider dealing or act which was detrimental to the interests of shareholders of the Company.

Related party transactions

The Board of Supervisors was not aware of any related party transactions carried out during the reporting period which ran against the spirit of fairness or was detrimental to the interests of the Company or its shareholders.

Implementation of resolutions passed at the general meetings

The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the general meetings for 2009, and concluded that the board had duly implemented relevant resolutions passed by the General Meetings.

Internal control

The Board of Supervisors concurred with the Board of Directors' statement regarding the completeness, reasonableness, effectiveness and implementation of the internal control system of the Company.

By Order of the Board of Supervisors

Shi Jiliang
Chairman of the Board of Supervisors

13 April 2010

As an enterprise highly aware of its responsibilities, the Company is dedicated to delivering its social responsibilities in various ways in addition to the full performance of its banking functions and making contribution to social and economic development.

I. Continuous efforts in poverty relief

The year 2009 marked the eleventh year for the Company to provide designated poverty relief to Wuding County and Yongren County in Yunnan Province. Our employees donated RMB5,750,000 in cash, 31,600 pieces of clothes and 216 computers to the two counties, and offered assistance to 1,030 students from primary and middle schools in the two counties under the "1+1" poverty relief campaign. The Company also continued to provide revolving small loans with an amount of RMB4 million, so as to increase the aid to the self-sufficient production program for the impoverished farmers.

The tenth anniversary of the provision of poverty relief to Yunnan Province by CMB

II. Increasing support to small and medium sized enterprises (SMEs)

In 2009, the Company continued to adhere to its strategy of supporting SMEs. As at the end of 2009, the Company had 12,620 SME customers across the country, with the balance of loans amounting to RMB308.37 billion, accounting for 47.68% of the total corporate loans to domestic corporates. The Company exerted its efforts in offering comprehensive services to SMEs and has played a positive role in creating jobs. The CBRC highly appreciated our support to SMEs, and granted the title of "Active Supporter of SMEs" to the Company.

The establishment of CMB's small enterprise credit subcentre (Shanghai)

III. Proactively developing green credit business

The Company continued to improve its green credit policy, stringently controlled loans granted to those sectors which may give rise to severe pollution, large energy consumption and excessive production capacity, and proactively supported the energy preservation projects and the renewable energy projects designated by the government. In 2009, in addition to the launch of green credit and project financing products, the Company cooperated with IFC to promote the research and development of risk-sharing products, and committed itself to the development of new businesses including the clean development mechanism (CDM) consultancy services, the low-interest-rate loans for energy efficiency and renewable energy projects of French Development Agency, and green private funds.

IV. Launching the "Third Wealth Management Education Community Tour"

Encouraged by The success of the previous two Wealth Management Education Community Tours, the Company officially launched its "Third Wealth Management Education Community Tour" in June 2009. The campaign, with the theme of "Win Your Future by Managing Your Wealth and Health" aimed at forging a healthy, harmonious and sustainable financial relationship within families, enabling the majority investors to share the fruitful results of China's economic development and live a happy and healthy life through sound wealth management. In the past six months, the Company held over 1,000 wealth management educational seminars in communities, enterprise units, academies and high schools across over 40 cities, attracting over 100,000 participants.

V. Implementing the "Sunflower" charity project of Qiang ethnic children's choir

In 2009, to inherit and protect Qiang ethnic group's intangible cultural heritage seriously damaged in the earthquake, the Company called on all walks of life to show their care about Qiang ethnic group's culture. In January, the Company initiated the "Sunflower" charity project of Qiang ethnic children's choir. The Company donated RMB1,500,000 to China Children and Teenagers' Fund as operating fund for the project, and enhanced its social benefits through various activities including Qiang ethnic group fundraising bazaar and the caring families offering aids to impoverished families campaign.

The launching ceremony of the "Sunflower" charity project of Qiang ethnic children's choir implemented by China Merchants Bank

VI. Designing "caring" financial products

The Company created a new way to support charity with its bank cards serving as a channel for donation. In 2009, the Company teamed up with "One Foundation" (壹基金) to issue the charity-featured financial products such as caring credit cards and caring "All-in-one" cards. The series of products have been widely accepted and become the most convenient channel for our customers to make donations. At the same time, the Company further enriched the charity substance of its products and organized its cardholders to participate in the "One Day Volunteer Service" activities. In 2009, the Company subsequently organized various charity activities in Sichuan, Beijing and Shanghai, including the "'We Are One Family and Will Go Ahead Together' Activity in Memory of the 12 May Wenchuan Earthquake", the "'Star Rain' One Day Volunteer Service" activity aimed at caring for autistic children and the activity of "Experience together with Mentally Retarded Persons of the Sunshine Family".

VII. Supporting social, cultural and sports development

The Company offered strong support to the social, cultural and sports development while sponsoring and supporting various artistic and sports activities and constantly creating new forms of activities. In 2009, the Company subsequently funded over 10 major cultural shows, exhibitions and forums, including "Voice of Africa – Kenya's Boy Choir Concert" during the 2009 Beijing Music Festival, the first "Bo'ao Asian Art Show", the "With Whom to Sit?" Solo Painting Show at Zeng Fanzhi Suzhou Museum. Meanwhile, the Company continued to fund the CMB team for China Tianrong F1 Motorboat Race and the China Television Weiqi Tournament.

Since becoming the first partner to the "2011 Shenzhen Summer Universiade" in 2007, the Company, as the exclusive financial operator for the event, has offered comprehensive investment and finance solutions, which are tailor-made to meet the demand of various financial services from the sponsors, and provided overall financial supports for the event. In addition to the credit card issued under the theme of "I love Shenzhen City Card – the Credit Card in Memory of Shenzhen Summer Universiade" in May 2009, the Company issued another debit card called "All-in-one Universiade Card" in December 2009.

XII Financial Report

Contents

Independent auditor's report to the shareholders of China Merchants Bank Co., Ltd

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

We have audited the accompanying financial statements of China Merchants Bank Co., Ltd (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 167 to 314 which comprise the consolidated and Bank balance sheets as at 31 December 2009, and the consolidated income statement, consolidated and Bank statements of changes in equity, consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Opinion

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

13 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2009	2008
Interest income	3	**65,838**	72,635
Interest expense	4	**(25,474)**	(25,750)
Net interest income		**40,364**	46,885
Fee and commission income	5	**9,153**	8,776
Fee and commission expense		**(1,160)**	(1,032)
Net fee and commission income		**7,993**	7,744
Other net income	6	**3,132**	917
Insurance operating income		**359**	98
Operating income		**51,848**	55,644
Operating expenses	7	**(26,207)**	(23,636)
Charge for insurance claims		**(355)**	(106)
Operating profit before impairment losses		**25,286**	31,902
Impairment losses	11	**(2,971)**	(5,154)
Share of profits of associates		**42**	37
Share of profits/(losses) of jointly controlled entities		**27**	(26)
Profit before taxation		**22,384**	26,759
Income tax	12	**(4,149)**	(5,813)
Profit for the year		**18,235**	20,946
Attributable to:			
Equity shareholders of the Bank		**18,235**	21,077
Minority interests		**–**	(131)

The notes on pages 176 to 314 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank attributable to the profit for the year are set out in note 39.

Consolidated Income Statement

For the year ended 31 December 2009

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**2009**	2008
Earnings per share			
Basic (RMB)	14(a)	**0.95**	1.10
Diluted (RMB)	14(b)	**0.95**	1.10
Other comprehensive income for the year (after tax and reclassification adjustments)	13		
Exchange differences		**12**	(34)
Available for sale investments: net movement in fair value reserve		**(3,089)**	3,311
Share of investment revaluation reserve of associates		**1**	(1)
Share of investment revaluation reserve of jointly controlled entities		**4**	(5)
		(3,072)	3,271
Total comprehensive income for the year		**15,163**	24,217
Attributable to:			
Equity shareholders of the Bank		**15,163**	24,368
Minority interests		**–**	(151)

The notes on pages 176 to 314 form part of these financial statements.

At 31 December 2009

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**2009**	2008
Assets			
Cash and balances with banks and other financial institutions	15	**56,544**	37,016
Balances with central bank	16	**208,554**	174,673
Placements with banks and other financial institutions	17	**221,194**	156,378
Loans and advances to customers	18	**1,161,817**	852,754
Investments	19	**377,072**	310,446
Interest in associates	20	**306**	266
Interest in jointly controlled entities	21	**160**	136
Fixed assets	22	**16,008**	15,062
Intangible assets	23	**2,477**	2,381
Deferred tax assets	24	**2,786**	2,521
Goodwill	25	**9,598**	9,598
Other assets	26	**11,425**	10,566
Total assets		**2,067,941**	1,571,797
Liabilities			
Deposits from banks and other financial institutions	27	**186,201**	115,792
Placements from banks and other financial institutions	28	**78,918**	50,124
Deposits from customers	29	**1,608,146**	1,250,648
Trading liabilities	19(e)	**30**	524
Derivative financial instruments	45(h)	**1,474**	2,266
Financial liabilities designated at fair value through profit or loss	19(f)	**1,173**	1,828
Certificates of deposit issued	30(a)	**4,462**	1,840
Convertible bonds issued	30(b)	**–**	2
Other debts issued	30(c)	**4,998**	4,996
Current taxation		**1,159**	2,956
Deferred tax liabilities	24	**941**	848
Other liabilities	31	**56,385**	26,752
Subordinated notes issued	30(d)	**31,271**	33,440
Total liabilities		**1,975,158**	1,492,016

The notes on pages 176 to 314 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2009

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**2009**	2008
Equity			
Share capital	33	**19,119**	14,707
Capital reserve	34	**18,399**	18,823
Surplus reserve	35	**6,653**	4,612
Investment revaluation reserve	36	**(230)**	2,854
Regulatory general reserve	37	**14,976**	10,793
Exchange reserve	38	**(22)**	(34)
Retained profits		**27,592**	19,836
Proposed profit appropriations	39(b)	**6,296**	7,924
Total equity attributable to shareholders of the Bank		**92,783**	79,515
Minority interests		**–**	266
Total equity		**92,783**	79,781
Total equity and liabilities		**2,067,941**	1,571,797

Approved and authorised for issue by the board of directors on 13 April 2010.

Qin Xiao
Director

Ma Wei Hua
Director

Company Chop

The notes on pages 176 to 314 form part of these financial statements.

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2009	2008
Assets			
Cash and balances with banks and other financial institutions	15	**54,238**	34,027
Balances with central bank	16	**207,979**	174,640
Placements with banks and other financial institutions	17	**199,344**	123,492
Loans and advances to customers	18	**1,105,816**	812,106
Investments	19	**352,258**	300,339
Investments in subsidiaries	1(c)	**32,565**	31,874
Interest in an associate	20	**191**	191
Fixed assets	22	**11,175**	10,010
Intangible assets	23	**1,149**	1,017
Deferred tax assets	24	**2,710**	2,443
Other assets	26	**8,492**	9,233
Total assets		**1,975,917**	1,499,372
Liabilities			
Deposits from banks and other financial institutions	27	**185,536**	115,742
Placements from banks and other financial institutions	28	**70,153**	49,278
Deposits from customers	29	**1,526,941**	1,178,240
Derivative financial instruments	45(h)	**974**	2,092
Financial liabilities designated at fair value through profit or loss	19(f)	**819**	–
Certificates of deposit issued	30(a)	**2,719**	941
Convertible bonds issued	30(b)	**–**	2
Other debts issued	30(c)	**4,998**	4,996
Current taxation		**1,129**	2,941
Other liabilities	31	**52,290**	24,263
Subordinated notes issued	30(d)	**29,950**	33,440
Total liabilities		**1,875,509**	1,411,935
Equity			
Share capital	33	**19,119**	14,707
Capital reserve	34	**27,557**	27,556
Surplus reserve	35	**6,653**	4,612
Investment revaluation reserve	36	**(352)**	2,833
Regulatory general reserve	37	**15,000**	10,900
Exchange reserve	38	**–**	(15)
Retained profits		**26,135**	18,920
Proposed profit appropriations	39(b)	**6,296**	7,924
Total equity		**100,408**	87,437
Total equity and liabilities		**1,975,917**	1,499,372

Approved and authorised for issue by the board of directors on 13 April 2010.

Qin Xiao	**Ma Wei Hua**	**Company Chop**
Director	Director	

The notes on pages 176 to 314 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(Expressed in millions of Renminbi unless otherwise stated)

2009

		Attributable to shareholders of the Bank										
	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Exchange reserve	Retained profits	Proposed profit appropriations	Subtotal	Minority interests	Total
At 1 January 2009		14,707	18,823	4,612	2,854	10,793	(34)	19,836	7,924	79,515	266	79,781
Appropriations to statutory surplus reserve for the year 2008		–	–	2,041	–	–	–	–	(2,041)	–	–	–
Proposed dividends for the year 2009	39(b)	–	–	–	–	–	–	(4,531)	4,531	–	–	–
Dividends paid for the year 2008	39(a)	4,412	–	–	–	–	–	–	(5,883)	(1,471)	–	(1,471)
Transfer of retained profits to regulatory general reserve		–	–	–	–	4,183	–	(4,183)	–	–	–	–
Conversion of convertible bonds	33, 34	–	1	–	–	–	–	–	–	1	–	1
Proposed appropriations to statutory surplus reserve for the year 2009	39(b)	–	–	–	–	–	–	(1,765)	1,765	–	–	–
Acquisition of minority interests		–	(425)	–	–	–	–	–	–	(425)	(266)	(691)
Total comprehensive income for the year	13	–	–	–	(3,084)	–	12	18,235	–	15,163	–	15,163
At 31 December 2009		19,119	18,399	6,653	(230)	14,976	(22)	27,592	6,296	92,783	–	92,783

2008

		Attributable to shareholders of the Bank										
	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Exchange reserve	Retained profits	Proposed profit appropriations	Subtotal	Minority interests	Total
At 1 January 2008		14,705	27,545	3,088	(471)	9,500	–	7,976	5,641	67,984	–	67,984
Acquisition of subsidiary		–	–	–	–	–	–	–	–	–	6,047	6,047
Appropriations to statutory surplus reserve for the year 2007		–	–	1,524	–	–	–	–	(1,524)	–	–	–
Proposed dividends for the year 2008	39(b)	–	–	–	–	–	–	(5,883)	5,883	–	–	–
Dividends paid for the year 2007	39(a)	–	–	–	–	–	–	–	(4,117)	(4,117)	–	(4,117)
Transfer of retained profits to regulatory general reserve		–	–	–	–	1,293	–	(1,293)	–	–	–	–
Conversion of convertible bonds	33, 34	2	11	–	–	–	–	–	–	13	–	13
Proposed appropriations to statutory surplus reserve for the year 2008	39(b)	–	–	–	–	–	–	(2,041)	2,041	–	–	–
Acquisition of minority interests		–	(8,733)	–	–	–	–	–	–	(8,733)	(5,630)	(14,363)
Total comprehensive income for the year	13	–	–	–	3,325	–	(34)	21,077	–	24,368	(151)	24,217
At 31 December 2008		14,707	18,823	4,612	2,854	10,793	(34)	19,836	7,924	79,515	266	79,781

The notes on pages 176 to 314 form part of these financial statements.

For the year ended 31 December 2009

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2009 Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Exchange reserve	Retained profits	Proposed profit appropriations	Total
At 1 January 2009		**14,707**	**27,556**	**4,612**	**2,833**	**10,900**	**(15)**	**18,920**	**7,924**	**87,437**
Appropriations to statutory surplus reserve for the year 2008		**–**	**–**	**2,041**	**–**	**–**	**–**	**–**	**(2,041)**	**–**
Proposed dividends for the year 2009	39(b)	**–**	**–**	**–**	**–**	**–**	**–**	**(4,531)**	**4,531**	**–**
Dividends paid for the year 2008	39(a)	**4,412**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,883)**	**(1,471)**
Transfer of retained profits to regulatory general reserve		**–**	**–**	**–**	**–**	**4,100**	**–**	**(4,100)**	**–**	**–**
Conversion of convertible bonds	33, 34	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**1**
Proposed appropriations to statutory surplus reserve for the year 2009	39(b)	**–**	**–**	**–**	**–**	**–**	**–**	**(1,765)**	**1,765**	**–**
Total comprehensive income for the year		**–**	**–**	**–**	**(3,185)**	**–**	**15**	**17,611**	**–**	**14,441**
At 31 December 2009		**19,119**	**27,557**	**6,653**	**(352)**	**15,000**	**–**	**26,135**	**6,296**	**100,408**

	Note	2008 Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	Regulatory general reserve	Exchange reserve	Retained profits	Proposed profit appropriations	Total
At 1 January 2008		14,705	27,545	3,088	(471)	9,500	–	7,869	5,641	67,877
Appropriations to statutory surplus reserve for the year 2007		–	–	1,524	–	–	–	–	(1,524)	–
Proposed dividends for the year 2008	39(b)	–	–	–	–	–	–	(5,883)	5,883	–
Dividends paid for the year 2007	39(a)	–	–	–	–	–	–	–	(4,117)	(4,117)
Transfer of retained profits to regulatory general reserve		–	–	–	–	1,400	–	(1,400)	–	–
Conversion of convertible bonds	33, 34	2	11	–	–	–	–	–	–	13
Proposed appropriations to statutory surplus reserve for the year 2008	39(b)	–	–	–	–	–	–	(2,041)	2,041	–
Total comprehensive income for the year		–	–	–	3,304	–	(15)	20,375	–	23,664
At 31 December 2008		14,707	27,556	4,612	2,833	10,900	(15)	18,920	7,924	87,437

The notes on pages 176 to 314 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009

(Expressed in millions of Renminbi unless otherwise stated)

	Note	**2009**	2008 (restated)
Operating activities			
Profit before tax		**22,384**	26,759
Adjustments for:			
– Impairment losses charged on loans and advances		**3,073**	3,703
– Impairment losses released on balances and placements with banks and other financial institutions		**–**	(274)
– Impairment losses (released)/charged on investments		**(83)**	861
– Impairment losses (released)/charged on other assets		**(20)**	864
– Impairment losses charged on interest in associates		**1**	–
– Unwind of interest income on impaired loans		**(106)**	(108)
– Depreciation		**2,194**	2,004
– Amortization of other assets		**198**	64
– Amortisation of discount and premium of debt investments		**(219)**	(1,657)
– Amortisation of discount and premium of issued debts		**13**	7
– Share of profits of associates		**(42)**	(37)
– Share of (profits)/losses of jointly controlled entities		**(27)**	26
– Net (gains)/losses on debt investments		**(958)**	583
– Net gains on disposal of fixed assets		**(2)**	(25)
– Interest income on debt investments		**(8,333)**	(7,163)
– Interest expense on issued debts		**1,919**	994
Changes in operating assets and liabilities:			
Increase in balances with central bank		**(45,145)**	(18,639)
(Increase)/decrease in balances and placements with banks and other financial institutions with original maturity over 3 months		**(99,361)**	68,529
Increase in loans and advances to customers		**(311,994)**	(163,105)
Decrease in other assets		**1,671**	1,642
Increase in deposits from customers		**357,498**	238,635
Increase/(decrease) in deposits and placements from banks and other financial institutions		**99,203**	(100,691)
Increase in other liabilities		**26,547**	6,397
Net cash inflow from operating activities		**48,411**	59,369
Income tax paid		**(5,315)**	(6,700)
Investing activities			
Payment for investments purchased		**(1,146,980)**	(723,806)
Proceeds from investments disposed		**1,097,684**	671,442
Interest received from debt investments		**8,083**	6,340
Acquisition of a new subsidiary		**–**	13,178
Acquisition of minority interests		**–**	(15,021)
Payment for purchase of fixed assets and other assets		**(3,567)**	(4,073)
Proceeds from sale of fixed assets and other assets		**150**	1,033
Payment for other investments		**(59)**	(356)
Return of loan to jointly controlled entities		**6**	–
Net cash outflow from investing activities		**(44,683)**	(51,263)
Net cash (outflow)/inflow before financing activities		**(1,587)**	1,406

The notes on pages 176 to 314 form part of these financial statements.

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2009	2008 (restated)
Financing activities			
Proceeds from issuance of subordinated notes		**1,321**	30,000
Proceeds from issuance of certificates of deposit		**5,154**	971
Repayment of certificates of deposit issued		**(1,357)**	(1,462)
Repayment of other debts		**(3,501)**	(5,000)
Dividends paid		**(1,474)**	(4,206)
Interest paid on issued debts		**(1,945)**	(1,017)
Cost of issuance of subordinated notes		**–**	(63)
Net cash (outflow)/inflow from financing activities		**(1,802)**	19,223
Net (decrease)/increase in cash and cash equivalents		**(3,389)**	20,629
Cash and cash equivalents at 1 January		**186,671**	167,031
Effect of foreign exchange rate changes		**349**	(989)
Cash and cash equivalents at 31 December	40(a)	**183,631**	186,671
Cash flows from operating activities include:			
Interest received		**60,733**	64,421
Interest paid		**23,843**	37,493

In previous years, "Payment for investments purchased" and "Proceeds from investments disposal" of the consolidated cash flow statement were reported in gross basis. Starting from 1 January 2009, the Group reports "Payment for investments purchased" and "Proceeds from investments disposal" in net basis. Comparative figures in 2008 are restated accordingly.

The notes on pages 176 to 314 form part of these financial statements.

(Expressed in millions of Renminbi unless otherwise stated)

1 ORGANISATION, PRINCIPAL ACTIVITIES AND DETAILS OF SUBSIDIARIES

(a) Organisation

China Merchants Bank Company Limited (the "Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002.

On 22 September 2006, the Bank's H-Shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited. (the "HKEx").

As at 31 December 2009, apart from the Head Office, the Bank had branches in Shenzhen, Shanghai, Beijing, Shenyang, Nanjing, Guangzhou, Wuhan, Lanzhou, Xi'an, Chengdu, Chongqing, Hangzhou, Fuzhou, Jinan, Tianjin, Dalian, Urumqi, Kunming, Hefei, Zhengzhou, Harbin, Nanchang, Changsha, Xiamen, Ningbo, Wenzhou, Wuxi, Suzhou, Hong Kong, Qingdao, Dongguan, Shaoxing, Yantai, Quanzhou, Changzhou, Taiyuan, Foshan, Changchun, Hohhot, Yangzhou, Nantong, Jinhua, Taizhou, Weifang, Nanning, Wuhu, Weihai, Ganzhou, Qujing, Yuling, Yichang, Dandong, Huangshi, and New York. In addition, the Bank has three representative offices in Beijing, London and the United States of America.

(b) Principal activities

The principal activities of the Bank and its subsidiaries ("the Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management and trustee services and other financial services.

(c) Investments in subsidiaries

	Bank	
	2009	2008
Unlisted shares, at cost	**34,333**	33,642
Less: Impairment loss	**(1,768)**	(1,768)
	32,565	31,874

1 ORGANISATION, PRINCIPAL ACTIVITIES AND DETAILS OF SUBSIDIARIES *(continued)*

(c) Investments in subsidiaries *(continued)*

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under note 2(d) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank	Principal activities
CMB International Capital Corporation Limited (note (i))	Hong Kong	HK$250	100%	Financial advisory services
CMB Finance Lease Company Limited (note (ii))	Shanghai	RMB2,000	100%	Finance lease
Wing Lung Bank Limited (note (iii))	Hong Kong	HK$1,161	100%	Banking

(i) CMB International Capital Corporation Limited ("CMBICC"), formerly known as Jiangnan Finance Company Limited is the Bank's wholly-owned subsidiary approved by the People's Bank of China ("PBOC") through its Yin Fu【1998】No. 405, and was renamed as CMBICC on 22 February 2002 upon approval of PBOC through its Yin Fu【2002】No. 30.

(ii) CMB Financial Leasing Company Limited ("CMBFLC") is a wholly-owned subsidiary of the Bank approved by the China Banking Regulatory Commission ("CBRC") through its Yin Jian Fu【2008】No. 110 and commenced its operation in April 2008.

(iii) The Bank entered into the Sale and Purchase Agreements with Wu Jieh Yee Company Limited, Wu Yee Sun Company Limited and Yee Hong Company Limited on 30 May 2008. CMB conditionally agreed to acquire 53.12% of the entire issued share capital of Wing Lung Bank Limited ("WLB") for an aggregate cash consideration of HK$19.30 billion. The acquisition was completed on 30 September 2008.

Following the completion of the above acquisition, the Bank made an unconditionally mandatory general offer to acquire all the issued WLB shares not already owned or agreed to acquire by the Bank pursuant to Rule 26.1 of the Hong Kong Takeovers Code. The Bank acquired 44.70% of the issued share capital of WLB under the general offer. On 27 October 2008, the Bank held 97.82% of the entire issued share capital of WLB. As a result of the completion of the Compulsory Acquisition on 15 January 2009, WLB has become a direct wholly-owned subsidiary of the Bank.

Trading of the WLB Shares has been suspended from 28 October 2008. Listing of the WLB Shares on the Stock Exchange has been withdrawn with effect from 16 January 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations promulgated by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Changes in accounting policies and accounting estimations

(i) New interpretations and amendments to IFRSs

The IASB has issued one new IFRS, a number of amendments to IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Bank. Of these, the following developments are relevant to the Group's financial statements:

IFRS 8, Operating segments

IAS 1 (revised 2007), Presentation of financial statements

Improvements to IFRSs (2008)

Amendment to IFRSs 7, Financial instruments: Disclosures-improving disclosures about financial statements

IFRIC 13, Customer loyalty programmes

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 41). Corresponding amounts have also been provided on a basis consistent with the revised segment information.

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. The new format for the consolidated income statement and consolidated statement of changes in equity have been adopted in this financial report and corresponding amounts have been updated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Changes in accounting policies and accounting estimations *(continued)*

(i) New interpretations and amendments to IFRSs *(continued)*

IFRIC 13, Customer loyalty programmes *(continued)*

- The Improvements to IFRSs (2008) comprise a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments. These amendments had no material impact on the Group's financial statements.

- As a result of the adoption of the amendments to IFRS 7, the financial statements include expanded disclosure in note 19(g) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

- IFRIC 13 addresses how reporting entities that grant their customers loyalty award credits when buying goods or services should account for their obligation to provide free or discounted goods and services, if and when the customers redeem these credits. IFRIC 13 requires reporting entities to allocate some of the proceeds of the initial sales to the award credits and recognise these proceeds as effect of the adoption of IFRIC 13 was not considered to be material for the Group and therefore, the prior year figures have not been restated.

(c) Basis of measurement

Unless stated otherwise, the financial statements are presented in Renminbi ("RMB"), which is the Group's functional and presentation currency, rounded to the nearest million.

The financial statements are prepared using the historical cost basis except that financial assets and liabilities at fair value through profit or loss including derivatives, and available-for-sale assets are stated at their fair value; and certain non-financial assets are stated at deemed cost.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the subsequent period are discussed in note 46.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation

The financial statements include the financial statements of the Bank and its subsidiaries. Subsidiaries are enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operational policies of an enterprise so as to obtain benefits from its activities. The results and affairs of the subsidiaries are included from the date that control commences until the date that control ceases.

The results of the subsidiaries are included in the consolidated result of the Group. All significant inter company transactions and balances, and any unrealised gains or losses arising from inter company transactions, have been eliminated on consolidation.

Minority interests represent the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interest that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Bank. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the net profit or loss for the year between minority interests and the shareholders of the Bank.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation (such as the articles of association or agreement stipulate) to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Bank's balance sheet, its investments in subsidiaries are stated at cost less allowances for impairment losses.

(e) Associates

Associates are entities in which the Group or the Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

Investment in associates is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associates' net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see notes 2(g) and (n)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associate.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Associates *(continued)*

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Bank's balance sheet, its interests in associates are stated at cost less impairment losses, if any. The results of associates are accounted for by the Bank on the basis of dividends received and receivable.

(f) Jointly controlled entities

Jointly controlled entities are entities which operate under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

In the Bank's balance sheet, the interests in jointly controlled entities are stated at cost less allowance for impairment losses. The results of jointly controlled entities are accounted for by the Bank on the basis of dividends received and receivable.

(g) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(n)). In respect of associate, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in consolidated income statement.

On disposal of cash generating unit, or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Intangible assets (other than goodwill)

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see note 2(n)). Amortisation of intangible assets with finite useful lives is charged to the consolidated income statement on a straight-line basis over the assets' estimated useful lives (2-50 years).

Land use rights are stated at cost, amortised on a straight-line basis over the respective lease periods of 40 – 50 years.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments

(i) Initial recognition

All financial assets and financial liabilities are recognised in the consolidated balance sheet when and only when, the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised on the date when the contractual rights to the cash flows expire or substantially all the risks and rewards of ownership are transferred. Except for loans and advances to customers that is recognised using settlement date accounting, purchase or sale of financial assets is recognised using trade date accounting.

Financial liabilities are derecognised on the date when the obligations specified in the contracts are discharged, cancelled or expired.

At initial recognition, all financial assets and liabilities are measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data.

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are:

– financial assets and financial liabilities at fair value through profit or loss include those financial assets and financial liabilities held principally for the purpose of short term profit taking and those financial assets and liabilities that are designated by the Group upon recognition as at fair value through profit or loss. They are not allowed to reclassify into or out of this category which it is held or issued.

  All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative;

– Financial instruments are designated at fair value through profit or loss upon initial recognition when:

  – the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

  – the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

  – the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

  – the separation of the embedded derivative from the financial instrument is not prohibited;

– held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity;

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(i) Initial recognition (continued)

– loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and those that are designated as available-for-sale upon initial recognition;

– available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity financial assets; and

– financial liabilities, other than that at fair value through profit or loss and designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity financial assets and financial liabilities not at fair value through profit or loss, which are measured at amortised cost using the effective interest method. Financial assets and financial liabilities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the consolidated income statement when they arise.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised at which time the cumulative gains or losses previously recognised in equity will be recognised in the consolidated income statement.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the consolidated income statement when the financial asset or liability is derecognised, impaired and amortised.

(ii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price in an active market at the valuation date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models referenced to the fair value of another instrument that is substantially the same (without deduction for transaction costs) or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market rate at the valuation date for an instrument with similar terms and risk profile.

(iii) Hedge accounting

The Group does not have derivative financial instruments which meet the criteria for hedge accounting.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(iv) Specific items

Cash equivalents

Cash equivalents comprise balances with banks and the central bank, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Placements with and takings from banks and other financial institutions

Banks represent other banks approved by the PBOC and other authorities. Other financial institutions represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the CBRC and insurance companies, securities firms, and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Placements with banks and other financial institutions are accounted for as loans and receivables.

Investments

Equity investments are accounted for as trading or available-for-sale financial assets. Debt investments are classified as financial assets at fair value through profit or loss, held-to-maturity debt securities, loans and receivables, and available-for-sale financial assets in accordance with the Group's holding intention at acquisition.

Loans and advances

Loans and advances directly granted by the Group to customers or participation in syndicated loans are accounted for as loans and receivables.

(v) Derivative financial instruments

The Group's derivative financial instruments include mainly spot, forward and foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. To hedge against risks arising from derivative transactions undertaken for customers, the Bank enters into similar derivative contracts with other banks.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated income statement.

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(vi) Embedded derivatives (continued)

When the embedded derivative is separated, the host contract is accounted for in accordance with note 2(i)(i) above.

(vii) Securitisations

The Group securitises various corporate loans, which generally results in the sale of these assets to special purpose entity, which, in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's balance sheet. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in "Other net income".

In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred and the degree of control exercised by the Group over the financial assets:

– when the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group shall derecognise the financial assets;

– when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and

– when the Group neither transfers nor retains substantially all the risk and rewards of ownership of the financial asset, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligation created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial assets.

(j) Fixed assets and depreciation

Fixed assets, including investment properties, are stated at cost or deemed cost less accumulated depreciation. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of fixed assets over their following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

Land and buildings	20 years
Investment properties	20 years
Computer equipment	3 years
Motor vehicles and others	3 – 5 years
Leasehold improvements (leasing property)	the shorter of the unexpired term of lease and 5 years
Leasehold improvements (self-owned property)	the longer of 5 years and the estimated useful lives

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Fixed assets and depreciation *(continued)*

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property and equipment when the asset is ready for its intended use. No depreciation is provided for construction in progress.

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated income statement. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values.

Subsequent expenditure relating to a fixed asset is capitalised only when it is probable that future economic benefits associated with the fixed assets will flow to the Group. All other expenditure is recognised in the consolidated income statement as an expense as incurred.

Profits or losses on disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the fixed assets and are accounted for in the consolidated income statement as they arise.

(k) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. When it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

Repossessed assets are measured at the lower of the carrying value of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the consolidated income statement.

(l) Finance and operating lease

(i) Classification

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as "Loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Finance income implicit in the lease payment is recognised as "Interest income" over the period of the leases in proportion to the funds invested. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Finance and operating lease *(continued)*

(iii) Operating lease

– ***Operating lease charges***

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent lease expense is charged to profit and loss when actually happened.

– ***Assets leased out under operating leases***

Fixed assets other than investment properties leased out under operating leases are depreciated in accordance with the depreciation policies described in Note 2(j) and if impaired, impairment losses are provided for in accordance with the accounting policy described in Note 2(n). Income derived from operating leases is recognised in the income statement using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent lease income is charged to profit and loss when actually happened.

(m) Repurchase and resale agreements

Securities sold under repurchase agreements are considered to be, in substance, secured loans borrowed. Therefore, the amounts received are included in "Amounts due to central bank" or "Placements from banks and other financial institutions", depending on the identity of the counterparty. Conversely securities or loans purchased subject to commitment to resell are considered as loans granted, and the amounts paid are accounted for as "Balances with central bank" or "Placements with banks and other financial institutions", depending on the identity of the counterparty.

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense, as appropriate.

(n) Impairment

(i) Financial assets

Financial assets are assessed at each balance sheet date to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidences include:

– significant financial difficulty of the issuer or borrower;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(i) Financial assets *(continued)*

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

- disappearance of an active market for financial assets because of financial difficulties; and

- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in consolidated income statement.

Losses expected as a result of future events, no matter how likely, are not recognised because the necessary loss event has not yet occurred.

Impairment losses on loans and advances

The Group uses two methods of assessing impairment losses on loans and advances: those assessed individually and those assessed on a collective basis.

- *Individually assessed*

  Loans and advances which are considered individually significant are assessed individually for impairment. This includes all loans and advances in the corporate lending portfolios.

  Impairment allowances are made on individually impaired loans when there is objective evidence of impairment that will impact the estimated future cash flows of the loan. Individually impaired loans and advances are graded as substandard or below.

  Impairment allowances of an individually impaired loan is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of the allowances for impairment losses.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(i) Financial assets (continued)

Impairment losses on loans and advances *(continued)*

– *Collectively assessed*

Impairment allowances are calculated on a collective basis for the following:

- in respect of losses which have been incurred but have not yet been identified for loans subject to individual assessment for impairment; and
- for homogeneous groups of loans that are not considered individually significant, representing the retail lending portfolios.

Incurred but not yet identified impairment

If no objective evidence of impairment exists for an individually assessed loan on an individual basis, whether significant or not, the loans are grouped in a pool of loans with similar credit risk characteristics for the purpose of calculating a collective impairment allowance. This allowance covers loans that are impaired at the balance sheet date but will not be individually identified as such until some time in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual loans in the pool of loans, those loans are removed from the pool. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment. The collective assessment allowance is determined after taking into account:

- the structure and risk characteristics of the Group's loan portfolio (indicating the borrower's ability to repay all loans) and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience;
- the emergence period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and
- management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans

Portfolios of homogeneous loans are collectively assessed using roll rate or historical loss rate methodologies. Overdue period represents the major observable objective evidence for impairment.

Impairment losses are recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(i) Financial assets (continued)

Impairment losses on loans and advances *(continued)*

– *Collectively assessed (continued)*

Homogeneous groups of loans *(continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the loan that exceeds the amortised cost at the date the impairment is reversed had the impairment not been recognised. The amount of the reversal is recognised in the consolidated income statement.

Where the loan has no reasonable prospect of recovery, the loan is written off. Amount recovered from a loan that has been written off will be recognised as income through the impairment loss account in the consolidated income statement.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remained as impaired or overdue.

In the recovery of impaired loans, the Group may take repossession of the collateral assets through court proceedings or voluntary delivery of repossession by the borrowers. Upon the seizure of these assets, the carrying value of the related loan principal and interest receivable are initially transferred to "Repossessed assets", and the respective allowances for impairment losses are transferred to "impairment allowance for repossessed assets".

Impairment losses on available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in equity and there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated income statement even though the financial assets has not been derecognised.

The amount of the cumulative loss that is recognised in the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in consolidated income statement. For an available-for-sale asset that is not carried at fair value as its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed, with the amount of the reversal being recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement for an investment in an equity instrument classified as available-for-sale are not reversed through the consolidated income statement. Any subsequent increase in the fair value of these assets is recognised directly in equity.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment *(continued)*

(ii) Other assets

Internal and external sources of information are reviewed at balance sheet date to identify indications that other assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated at balance sheet date whether or not there is any indication of impairment.

– ***Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– ***Recognition of impairment losses***

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– ***Reversals of impairment losses***

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Convertible bonds issued

At initial recognition the liability component of the convertible bonds issued is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar debt securities that do not have a conversion option. The liability component is subsequently carried at amortised cost until it is converted or redeemed. Any excess of proceeds over the amount initially recognised as the liability component is in substance an option and is recognised as the equity component in the capital reserve.

If the bond is converted into shares, the carrying value of the liability component and any interest payable at the time of conversion, are transferred to "share capital" based on the numbers of shares issued at par and the differences are recognised as share premium in capital reserve.

(p) Financial guarantee issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities.

The deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(p)(ii) and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Income recognition

(i) Interest income

Interest income is recognised in the consolidated income statement on an accruals basis, taking into account the effective interest rate of the instrument or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of any interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

When a financial asset or a group of financial assets are impaired, interest income is recognised on the impaired financial assets using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Interest income and expenses on all financial assets and liabilities that are classified as trading or designated at fair value through profit and loss are considered to be incidental and are therefore presented together with all other changes in fair value arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense, foreign exchange differences and dividend income attributable to those financial instruments.

(ii) Fee and commission income

Fee and commission income is recognised in the consolidated income statement when the corresponding service is provided.

(iii) Dividend income

– Dividend income from listed investments is recognised when the underlying investment is declared ex-dividend.

– Where the investments are unlisted, interim dividend income is recognised when declared by the Board of Directors of the investees. Final dividend income is recognised only when the amount proposed by the Board of Directors of the investees is approved by shareholders at general meetings.

(iv) Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at date of risk inception.

(r) Taxation

Current income tax and movements in deferred tax balances are recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Taxation *(continued)*

Deferred tax is provided using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Foreign currency translations

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities, and share capital which are measured at historical cost in a foreign currency are translated into RMB at the foreign exchange rates ruling at the date of the transaction, whilst those stated at fair value are translated into RMB at the foreign exchange rate ruling at the date of valuation. Income and expenses denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. When the gain or loss on a non-monetary item, including available-for-sale equity instrument, is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the consolidated income statement.

The assets and liabilities of operations outside Mainland China are translated into RMB at the spot exchange rates ruling at the balance sheet date. The equity items, excluding "Retained profits", are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. The income and expenses of foreign operation are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from translation are recognised as "Exchange reserve" in equity.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(u) Employee benefits

(i) Salaries and staff welfare

Salaries, bonus and other benefits are accrued in the period in which the associated services are rendered by employees.

(ii) Post employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated income statement as incurred.

Annual contributions to the retirement benefit schemes with defined benefit arrangements are determined based on periodic valuations of the assets and liabilities of such schemes by qualified actuaries using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries. The defined benefit obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the 10% of the greater of these schemes' assets and the defined benefit obligations are recognised in the income statement over the average expected future working lifetime of the members of the schemes.

(iii) Share-based payment

The Group offers equity incentives to its employee, namely H-share Appreciation Rights Scheme for the Senior Management ("the Scheme"). The scheme is accounted for as cash settled plan. The fair value of the equity incentives is measured at grant date using Black-Scholes model, taking into account the terms and condition upon which the equity incentives were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity incentives, the total estimated fair value of the equity incentives is spread over the vesting period, taking into account the probability that the equity incentives will vest.

During the vesting period, the equity incentives that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the income statement for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual amount of equity incentives that vest.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(w) Segmental reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(x) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the balance sheets as the risks and rewards of the assets reside with the customers.

(y) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

(Expressed in millions of Renminbi unless otherwise stated)

3 INTEREST INCOME

	2009	2008
Loans and advances (note)		
– corporate loans	**31,728**	33,556
– retail loans	**14,679**	13,594
– discounted bills	**5,615**	8,947
Balances with central bank	**2,957**	2,827
Balances and placements with		
– banks	**2,013**	4,237
– other financial institutions	**294**	654
Debt securities investments (note)		
– listed	**7,548**	8,136
– unlisted	**1,004**	684
Interest income on financial assets that are not at fair value through profit or loss	**65,838**	72,635

Note: Included in the above is interest income of RMB106 million accrued on impaired loans for the year ended 31 December 2009 (2008: RMB108 million) and RMB4 million accrued on impaired debt securities investments for the year ended 31 December 2009 (2008: RMB35 million).

4 INTEREST EXPENSE

	2009	2008
Deposits from customers	**19,614**	19,924
Deposits and placements from		
– banks	**1,193**	1,444
– other financial institutions	**2,735**	3,381
Issued debts	**1,932**	1,001
Interest expense on financial liabilities that are not at fair value through profit or loss	**25,474**	25,750

5 FEE AND COMMISSION INCOME

	2009	2008
Bank cards fees	**2,599**	2,673
Remittance and settlement fees	**1,077**	982
Agency services fees	**2,477**	1,628
Commissions from credit commitment and loan business	**723**	610
Commission on trust and fiduciary activities	**1,541**	1,895
Others	**736**	988
	9,153	8,776

Note: Included above is fee and commission income earned by the Group arising from financial assets and liabilities not carried at fair value through profit or loss (other than amount included in determining the effective interest rate) of RMB3,060 million (2008: RMB2,352 million).

(Expressed in millions of Renminbi unless otherwise stated)

6 OTHER NET INCOME

	2009	2008
Trading profits/(losses) arising from		
– foreign exchange	**1,252**	1,153
– securities, derivatives and other trading activities	**66**	(96)
Net gains on financial instruments designated at fair value through profit or loss	**611**	2
Net gains/(losses) on disposal of available-for-sale financial assets	**722**	(494)
Distributions from investment in funds	**10**	3
Net gains on disposal of fixed assets	**2**	25
Rental income	**149**	77
Others	**320**	247
	3,132	917

7 OPERATING EXPENSES

	2009	2008
Staff costs		
– salaries, bonuses and staff welfare (note (i))	**10,151**	8,929
– retirement benefit costs	**1,224**	1,031
– housing allowances	**773**	625
– others	**538**	578
	12,686	11,163
Business tax and surcharges	**3,129**	3,296
Depreciation	**2,194**	2,004
Rental expenses	**1,917**	1,453
Other general and administrative expenses	**6,281**	5,720
	26,207	23,636

Notes:

(i) Performance bonus is included in the above salaries and bonuses, the details of which are disclosed in note 32(c).

(ii) Auditors' remuneration amounted to RMB9 million for 2009 (2008: RMB9 million) and non-audit service fee paid to auditors was RMB4 million for 2009 (2008: RMB11 million).

(Expressed in millions of Renminbi unless otherwise stated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments of the Directors and Supervisors during the year are as follows:

	2009				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (Note 1)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Ma Wei Hua	–	4,200	–	1,106	5,306
Zhang Guang Hua	–	2,100	–	574	2,674
Li Hao	–	2,100	–	552	2,652
Non-executive directors					
Qin Xiao	–	–	–	–	–
Wei Jia Fu	–	–	–	–	–
Fu Yu Ning	–	–	–	–	–
Li Yin Quan	–	–	–	–	–
Hong Xiao Yuan	–	–	–	–	–
Edward Ding An Hua	–	–	–	–	–
Sun Yue Ying	–	–	–	–	–
Wang Da Xiong	–	–	–	–	–
Fu Jun Yuan	–	–	–	–	–
Independent non – executive directors and supervisors					
Wu Jie Si	300	–	–	–	300
Yi Xi Qun	300	–	–	–	300
Yan Lan	300	–	–	–	300
Edward Chow Kwong Fai	300	–	–	–	300
Liu Yong Zhang	300	–	–	–	300
Liu Hong Xia	300	–	–	–	300
Shi Ji Liang	600	–	–	–	600
Zhu Gen Lin	–	–	–	–	–
Shao Rui Qing	300	–	–	–	300
Dong Xian De	–	–	–	–	–
Li Jiang Ning	–	–	–	–	–
Yang Zong Jian	–	915	370	404	1,689
Shi Shun Hua	–	1,221	619	449	2,289
Zhou Song	–	870	350	339	1,559
	2,700	11,406	1,339	3,424	18,869

(Expressed in millions of Renminbi unless otherwise stated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

	2008				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Ma Wei Hua	–	4,200	3,109	584	7,893
Zhang Guang Hua	–	2,100	1,554	311	3,965
Li Hao	–	2,100	1,554	294	3,948
Non-executive directors					
Qin Xiao	–	–	–	–	–
Wei Jia Fu	–	–	–	–	–
Fu Yu Ning	–	–	–	–	–
Li Yin Quan	–	–	–	–	–
Hong Xiao Yuan	–	–	–	–	–
Edward Ding An Hua	–	–	–	–	–
Sun Yue Ying	–	–	–	–	–
Wang Da Xiong	–	–	–	–	–
Fu Jun Yuan	–	–	–	–	–
Independent non – executive directors and supervisors					
Wu Jie Si	300	–	–	–	300
Yi Xi Qun	300	–	–	–	300
Yan Lan	300	–	–	–	300
Edward Chow Kwong Fai	300	–	–	–	300
Liu Yong Zhang	300	–	–	–	300
Liu Hong Xia	300	–	–	–	300
Shi Ji Liang	600	–	–	–	600
Zhu Gen Lin	–	–	–	–	–
Chen Hao Ming	–	–	–	–	–
Shao Rui Qing	300	–	–	–	300
Dong Xian De	–	–	–	–	–
Li Jiang Ning	–	–	–	–	–
Yin Xu Wen	–	183	74	37	294
Yang Zong Jian	–	852	370	175	1,397
Shi Shun Hua	–	979	751	264	1,994
Zhou Song	–	742	350	147	1,239
	2,700	11,156	7,762	1,812	23,430

Note 1: The emoluments of Executive Directors and Executive Officers did not include the discretionary bonus for 2009. The payment of discretionary bonus for 2009 is subject to the review and approval by the board of directors. The information of discretionary bonus for 2009 will be disclosed once it has been approved by the board of directors.

Note 2: Apart from the above emoluments, the Bank has also offered H-share Appreciation Rights Scheme phase I, phase II and phase III to its senior management ("the Scheme") on 30 October 2007, 7 November 2008 and 16 November 2009 respectively. In 2009, none of the granted share appreciation rights were exercised. Details of this Scheme are set out in note 32(d).

(Expressed in millions of Renminbi unless otherwise stated)

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below.

RMB	**2009**	2008
Nil – 500,000	**19**	21
500,001 – 1,000,000	**1**	1
1,000,001 – 1,500,000	**–**	2
1,500,001 – 2,000,000	**2**	1
2,000,001 – 2,500,000	**1**	–
2,500,001 – 3,000,000	**2**	–
3,500,001 – 4,000,000	**–**	2
5,000,001 – 5,500,000	**1**	–
7,500,001 – 8,000,000	**–**	1
	26	28

None of the Directors and Supervisors received any inducements, compensation for loss of office or waived any emoluments during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments for the year ended 31 December 2009, 2 (2008: 3) are Directors or Supervisors whose emoluments are included in Note 8 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other emoluments	**14,197**	12,600
Discretionary bonuses	**–**	9,325
Contributions to defined contribution retirement schemes	**3,200**	1,810
	17,397	23,735

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

RMB	**2009**	2008
2,500,001 – 3,000,000	**3**	–
3,500,001 – 4,000,000	**–**	4
4,000,001 – 4,500,000	**1**	–
5,000,001 – 5,500,000	**1**	–
7,500,001 – 8,000,000	**–**	1

(Expressed in millions of Renminbi unless otherwise stated)

10 LOANS TO DIRECTORS, SUPERVISORS AND OFFICERS

Loans to Directors, Supervisors and Officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	2009	2008
Aggregate amount of relevant loans made by the Group outstanding at year end	**32**	19
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	**48**	27

11 IMPAIRMENT LOSSES

	2009	2008
Impairment losses charged/(released) on:		
– loans and advances (Note 18(c))	**3,073**	3,703
– deposits and placements with banks and other financial institutions (Note 17(d))	**–**	(274)
– investments		
– available-for-sale investments	**(52)**	600
– held-to-maturity debt securities (Note 19(c))	**(31)**	199
– receivables (Note 19(d))	**–**	62
– interest in associates (Note 20)	**1**	–
– goodwill (Note 25)	**–**	579
– other assets	**(20)**	285
	2,971	5,154

12 INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2009	2008
Current tax		
– Mainland China	**4,444**	7,060
– Hong Kong	**60**	9
– Overseas	**14**	3
Subtotal	**4,518**	7,072
Deferred tax	**631**	(1,213)
Over provision of prior years	**(1,000)**	(46)
Total	**4,149**	5,813

(Expressed in millions of Renminbi unless otherwise stated)

12 INCOME TAX *(continued)*

(b) A reconciliation of income tax expense in the consolidated income statement and that calculated at the applicable tax rate is as follows:

	2009	2008
Profit before tax	**22,384**	26,759
Notional tax on profit before tax, calculated at the statutory tax rate of 25% (2008: 25%)	**5,596**	6,690
Add/(less) the tax effect of the following items:		
– Non-deductible expenses	**494**	451
– Non-taxable income	**(390)**	(217)
– Different income tax rates in other areas	**(736)**	(401)
– Effect of change in tax rate on opening deferred tax balances	**164**	(244)
– Over provision of prior years	**(1,000)**	(46)
– Others	**21**	(420)
Actual income tax expense	**4,149**	5,813

Notes:

(i) The income tax rates applicable to the Bank's operations in Shenzhen Special Economic Zone is 20% (2008: 18%) during the year.

(ii) The provision for Hong Kong profit tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits from Hong Kong operations for the year.

(iii) Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant countries.

13 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2009			2008		
	Before-tax amount	**Tax benefit**	**Net-of-tax amount**	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences	**12**	**–**	**12**	(34)	–	(34)
Available-for-sale financial assets	**(3,893)**	**804**	**(3,089)**	4,130	(819)	3,311
Share of investment revaluation reserve of associates	**1**	**–**	**1**	(1)	–	(1)
Share of investment revaluation reserve of jointly controlled entities	**4**	**–**	**4**	(5)	–	(5)
Other comprehensive income	**(3,876)**	**804**	**(3,072)**	4,090	(819)	3,271

(Expressed in millions of Renminbi unless otherwise stated)

13 OTHER COMPREHENSIVE INCOME *(continued)*

(b) Reclassification adjustments relating to components of other comprehensive income

	2009	2008
Available-for-sale financial assets:		
Changes in fair value recognised during the period	**(2,295)**	2,671
Reclassification adjustments for amounts transferred to profit or loss:		
– (gains)/losses on disposal	**(794)**	161
– impairment losses	**–**	479
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(3,089)**	3,311

14 EARNINGS PER SHARE

Movements of the share capital are included in Note 33 of the financial statements.

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of shares in issue, calculated as follows:

	2009	2008 (restated)
Net profit	**18,235**	21,077
Weighted average number of shares in issue (in million)	**19,119**	19,119
Basic earnings per share (in RMB)	**0.95**	1.10

(Expressed in millions of Renminbi unless otherwise stated)

14 EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the diluted net profit and the weighted average number of shares in issue after adjusting for the effect of all dilutive potential shares, calculated as follows:

	2009	2008 (restated)
Net profit	**18,235**	21,077
Interest expense on convertible bonds issued	**–**	–
Diluted net profit	**18,235**	21,077
Weighted average number of shares in issue (in million)	**19,119**	19,119
Effect of deemed conversion of convertible bonds (in million)	**–**	–
Weighted average number of shares in issue after dilution (in million)	**19,119**	19,119
Diluted earnings per share (in RMB)	**0.95**	1.10

15 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		**Bank**	
	2009	2008	**2009**	2008
Cash	**7,613**	6,928	**7,129**	6,479
Balances with banks	**48,899**	30,063	**47,082**	27,523
Balances with other financial institutions	**60**	58	**55**	58
	56,572	37,049	**54,266**	34,060
Less: Impairment allowances				
– banks	**(24)**	(29)	**(24)**	(29)
– other financial institutions	**(4)**	(4)	**(4)**	(4)
	(28)	(33)	**(28)**	(33)
	56,544	37,016	**54,238**	34,027

(Expressed in millions of Renminbi unless otherwise stated)

15 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS *(continued)*

(b) Balances with banks and other financial institutions (analysed by geographical location)

	Group		Bank	
	2009	2008	**2009**	2008
Balances with				
– banks in the Mainland	**34,925**	17,972	**34,343**	17,386
– other financial institutions in the Mainland	**56**	54	**51**	54
	34,981	18,026	**34,394**	17,440
Balances with				
– banks outside the Mainland	**13,950**	12,062	**12,715**	10,108
	48,931	30,088	**47,109**	27,548

(c) Movements of allowances for impairment losses (note)

	Group and Bank	
	2009	2008
As at 1 January	**33**	33
Write-offs	**(5)**	–
As at 31 December	**28**	33

Note: The impairment loss for balances with banks and other financial institutions is individually assessed.

(Expressed in millions of Renminbi unless otherwise stated)

15 CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS *(continued)*

(d) Impaired balances with banks and other financial institutions and allowances

	Group		Bank	
	2009	2008	**2009**	2008
Gross impaired balances with banks and other financial institutions	**28**	33	**28**	33
Individually assessed impairment allowances	**(28)**	(33)	**(28)**	(33)
Net balances	**–**	–	**–**	–
Gross impaired balances with banks and other financial institutions as a percentage of total balances with banks and other financial institutions	**0.06%**	0.11%	**0.06%**	0.12%

16 BALANCES WITH CENTRAL BANK

	Group		Bank	
	2009	2008	**2009**	2008
Statutory deposit reserve funds (note (i))	**172,137**	126,992	**172,076**	126,976
Surplus deposit reserve funds (note (ii))	**35,240**	46,751	**34,726**	46,734
Fiscal deposits	**1,177**	930	**1,177**	930
	208,554	174,673	**207,979**	174,640

Notes:

(i) The statutory deposit reserve funds are not available for the Group's daily operations. The statutory deposit reserve funds are calculated at 13.5% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2009 (2008: 13.5% and 5% for eligible RMB deposits and foreign currency deposits). Eligible deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and other deposits.

(ii) The surplus deposit funds reserve maintained with the People's Bank of China and central banks of overseas countries are mainly for the purpose of clearing.

(Expressed in millions of Renminbi unless otherwise stated)

17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2009	2008	**2009**	2008
Money market placements				
– banks	**51,070**	80,836	**29,220**	47,950
– other financial institutions	**11,327**	1,000	**11,327**	1,000
	62,397	81,836	**40,547**	48,950
Balances under resale agreements (note)				
– banks	**147,733**	61,652	**147,733**	61,652
– other financial institutions	**11,064**	12,890	**11,064**	12,890
	158,797	74,542	**158,797**	74,542
	221,194	156,378	**199,344**	123,492

Note: Assets purchased under the above resale agreements are registered national bonds issued by the PRC government, bonds issued by the PBOC and policy banks, other debt securities, bills and loans of equivalent amounts.

(b) Analysed by remaining maturity

	Group		Bank	
	2009	2008	**2009**	2008
Maturing				
– within one month	**87,116**	92,605	**73,949**	63,329
– between one month and one year	**133,804**	63,395	**125,370**	60,138
– after one year	**274**	378	**25**	25
	221,194	156,378	**199,344**	123,492

(Expressed in millions of Renminbi unless otherwise stated)

17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(continued)

(c) Analysed by geographical location

	Group		Bank	
	2009	2008	**2009**	2008
Placements with				
– banks in the Mainland	**162,245**	76,353	**157,349**	75,991
– other financial institutions in the Mainland	**22,391**	13,890	**22,391**	13,890
	184,636	90,243	**179,740**	89,881
Placements with				
– banks outside the Mainland	**36,558**	66,135	**19,604**	33,611
	221,194	156,378	**199,344**	123,492

(d) Movements of allowances for impairment losses

	Group and Bank					
	2009			2008		
	Collectively assessed	**Individually assessed**	**Total**	Collectively assessed	Individually assessed	Total
As at 1 January	**–**	**–**	**–**	274	5	279
Reversal for the year	**–**	**–**	**–**	(274)	–	(274)
Write-offs	**–**	**–**	**–**	–	(5)	(5)
As at 31 December	**–**	**–**	**–**	–	–	–

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	Group		Bank	
	2009	2008	**2009**	2008
Corporate loans	**701,396**	545,961	**659,175**	518,440
Discounted bills	**102,549**	95,766	**101,756**	95,766
Retail loans	**381,877**	232,635	**368,592**	219,342
Gross loans and advances to customers	**1,185,822**	874,362	**1,129,523**	833,548
Less: impairment allowances				
– individually-assessed	**(5,969)**	(6,727)	**(5,873)**	(6,692)
– collectively-assessed	**(18,036)**	(14,881)	**(17,834)**	(14,750)
	(24,005)	(21,608)	**(23,707)**	(21,442)
Net loans and advances to customers	**1,161,817**	852,754	**1,105,816**	812,106

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers:

	Group		Bank	
	2009	2008	**2009**	2008
Domestic enterprises:				
State-owned enterprises	**231,771**	198,739	**231,044**	197,905
Joint-stock enterprises	**71,668**	64,244	**68,780**	63,863
Other limited liability enterprises	**163,030**	101,029	**157,928**	100,421
Others	**80,598**	60,283	**80,598**	60,083
	547,067	424,295	**538,350**	422,272
Foreign-invested enterprises	**101,138**	90,235	**99,895**	89,485
Enterprises operating in the Mainland	**648,205**	514,530	**638,245**	511,757
Enterprises operating outside the Mainland	**53,191**	31,431	**20,930**	6,683
Corporate loans	**701,396**	545,961	**659,175**	518,440
Discounted bills	**102,549**	95,766	**101,756**	95,766
Retail loans	**381,877**	232,635	**368,592**	219,342
Gross loans and advances to customers	**1,185,822**	874,362	**1,129,523**	833,548

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by industry sector:

Operation in Mainland China

	Group		Bank	
	2009	2008	**2009**	2008
Manufacturing and processing	**191,890**	159,565	**186,932**	157,867
Transportation, storage and postal services	**106,456**	89,408	**105,759**	88,898
Wholesale and retail	**75,310**	56,311	**75,170**	56,301
Production and supply of electric power, gas and water	**65,797**	62,364	**64,026**	62,020
Property development	**63,611**	44,581	**63,239**	44,411
Leasing and commercial services	**45,978**	27,982	**45,890**	27,982
Water, environment and public utilities management	**28,626**	9,163	**28,626**	9,163
Construction	**26,027**	22,969	**25,135**	22,774
Mining	**19,668**	14,127	**18,917**	14,127
Telecommunications, computer services and software	**9,251**	6,223	**9,156**	6,223
Others	**24,748**	22,266	**23,965**	21,991
Corporate loans	**657,362**	514,959	**646,815**	511,757
Discounted bills	**102,549**	95,766	**101,756**	95,766
Credit cards	**39,942**	31,604	**39,942**	31,604
Mortgages	**263,997**	148,548	**263,852**	148,452
Others	**65,076**	39,493	**64,798**	39,286
Retail loans	**369,015**	219,645	**368,592**	219,342
Gross loans and advances to customers	**1,128,926**	830,370	**1,117,163**	826,865

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by industry sector: (continued)

Operation outside Mainland China

	Group		Bank	
	2009	2008	**2009**	2008
Property development	**26,916**	19,646	**5,376**	2,822
Wholesale and retail trade	**4,935**	1,837	**2,573**	596
Financial concerns	**3,800**	2,429	**607**	1,475
Transport and transport equipment	**3,125**	3,002	**1,815**	1,493
Manufacturing	**2,497**	1,273	**600**	151
Recreational activities	**966**	97	**940**	79
Information technology	**159**	3	**155**	–
Others	**1,636**	2,715	**294**	67
Corporate loans	**44,034**	31,002	**12,360**	6,683
Credit cards	**372**	415	**–**	–
Mortgages	**9,662**	9,964	**–**	–
Others	**2,828**	2,611	**–**	–
Retail loans	**12,862**	12,990	**–**	–
Gross loans and advances to customers	**56,896**	43,992	**12,360**	6,683

Notes: Analyses by borrowers' geographical areas

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan and advance is guaranteed by a party located in an area that is different from that of the counterparty. At 31 December 2009, over 90% of the Group's loans and advances to customers was classified under People's Republic of China (unchanged from the positions at 31 December 2008).

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Movements of allowances for impairment losses

	Group			
	2009			
	Loans and advances for which impairment losses are collectively assessed	**Impaired loans and advances: For which impairment losses are collectively assessed**	**Impaired loans and advances: For which impairment losses are individually assessed**	**Total**
At 1 January	**13,795**	**1,086**	**6,727**	**21,608**
Charge for the year (Note 11)	**2,862**	**400**	**754**	**4,016**
Releases for the year (Note 11)	**(19)**	**(2)**	**(922)**	**(943)**
Unwinding of discount	**–**	**(1)**	**(105)**	**(106)**
Recoveries of loans and advances previously written off	**–**	**5**	**150**	**155**
Write-offs	**–**	**(90)**	**(682)**	**(772)**
Transfers in	**–**	**–**	**46**	**46**
Exchange difference	**–**	**–**	**1**	**1**
At 31 December	**16,638**	**1,398**	**5,969**	**24,005**

	Group			
	2008			
	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are individually assessed	Total
At 1 January	10,434	631	7,685	18,750
Charge for the year (Note 11)	3,363	597	1,454	5,414
Addition through acquisition of subsidiary	98	3	31	132
Releases for the year (Note 11)	(10)	(1)	(1,700)	(1,711)
Unwinding of discount	–	–	(108)	(108)
Recoveries of loans and advances previously written off	–	–	65	65
Write-offs	–	(56)	(622)	(678)
Transfers out	–	(88)	–	(88)
Exchange difference	(90)	–	(78)	(168)
At 31 December	13,795	1,086	6,727	21,608

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(c) Movements of allowances for impairment losses *(continued)*

Bank — 2009

	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are individually assessed	Total
At 1 January	**13,667**	**1,083**	**6,692**	**21,442**
Charge for the year	**2,772**	**385**	**699**	**3,856**
Releases for the year	**–**	**–**	**(916)**	**(916)**
Unwinding of discount	**–**	**–**	**(101)**	**(101)**
Recoveries of loans and advances previously written off	**–**	**3**	**148**	**151**
Write-offs	**–**	**(76)**	**(662)**	**(738)**
Transfers in	**–**	**–**	**12**	**12**
Exchange difference	**–**	**–**	**1**	**1**
At 31 December	**16,439**	**1,395**	**5,873**	**23,707**

Bank — 2008

	Loans and advances for which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are collectively assessed	Impaired loans and advances: For which impairment losses are individually assessed	Total
At 1 January	10,434	631	7,685	18,750
Charge for the year	3,323	593	1,442	5,358
Releases for the year	–	–	(1,699)	(1,699)
Unwinding of discount	–	–	(108)	(108)
Recoveries of loans and advances previously written off	–	–	64	64
Write-offs	–	(53)	(614)	(667)
Transfers out	–	(88)	–	(88)
Exchange difference	(90)	–	(78)	(168)
At 31 December	13,667	1,083	6,692	21,442

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(d) Loans and advances to customers and allowances for impairment losses

	Group 2009					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances: for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances: for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	21,777	–	6	21,783	0.03	–
– non-financial institution customers	1,154,447	1,631	7,961	1,164,039	0.82	1,344
	1,176,224	1,631	7,967	1,185,822	0.81	1,344
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(28)	–	(4)	(32)		
– non-financial institution customers	(16,610)	(1,398)	(5,965)	(23,973)		
	(16,638)	(1,398)	(5,969)	(24,005)		
Net loans and advances to						
– financial institutions	21,749	–	2	21,751		
– non-financial institution customers	1,137,837	233	1,996	1,140,066		
	1,159,586	233	1,998	1,161,817		

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	Group					
	2008					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	24,963	–	7	24,970	0.03	–
– non-financial institution customers	839,827	1,382	8,183	849,392	1.13	1,140
	864,790	1,382	8,190	874,362	1.09	1,140
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(130)	–	(4)	(134)		
– non-financial institution customers	(13,665)	(1,086)	(6,723)	(21,474)		
	(13,795)	(1,086)	(6,727)	(21,608)		
Net loans and advances to						
– financial institutions	24,833	–	3	24,836		
– non-financial institution customers	826,162	296	1,460	827,918		
	850,995	296	1,463	852,754		

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	Bank 2009					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	17,104	–	6	17,110	0.04	–
– non-financial institution customers	1,103,058	1,615	7,740	1,112,413	0.84	1,224
	1,120,162	1,615	7,746	1,129,523	0.83	1,224
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(22)	–	(4)	(26)		
– non-financial institution customers	(16,417)	(1,395)	(5,869)	(23,681)		
	(16,439)	(1,395)	(5,873)	(23,707)		
Net loans and advances to						
– financial institutions	17,082	–	2	17,084		
– non-financial institution customers	1,086,641	220	1,871	1,088,732		
	1,103,723	220	1,873	1,105,816		

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	Bank					
	2008					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances: for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances: for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– financial institutions	23,785	–	7	23,792	0.03	–
– non-financial institution customers	800,264	1,355	8,137	809,756	1.17	1,130
	824,049	1,355	8,144	833,548	1.14	1,130
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(128)	–	(4)	(132)		
– non-financial institution customers	(13,539)	(1,083)	(6,688)	(21,310)		
	(13,667)	(1,083)	(6,692)	(21,442)		
Net loans and advances to						
– financial institutions	23,657	–	3	23,660		
– non-financial institution customers	786,725	272	1,449	788,446		
	810,382	272	1,452	812,106		

Notes:

(i) These loans and advances include those for which no objective evidence of impairment has been identified on individual basis.

(ii) Impaired loans and advances include loans for which objective evidence of impairment has been identified:

– collectively: that is portfolios of homogeneous loans; or

– individually.

(iii) The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

(Expressed in millions of Renminbi unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(e) Finance leases and hire purchase contracts

Loans and advances to customers include investment in finance lease receivables and hire purchase contracts, analysed as follows:

	Group			
	2009		2008	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	**2,530**	**2,936**	840	985
After 1 year but within 5 years	**6,486**	**7,022**	2,044	2,237
After 5 years	**223**	**231**	60	63
	9,239	**10,189**	2,944	3,285
Impairment allowances:				
– individually assessed	**(11)**	**(11)**	(22)	(22)
– collectively assessed	**(110)**	**(110)**	(54)	(54)
Unearned future income on finance lease	**–**	**(950)**	–	(341)
Net investment in finance leases and hire purchase contracts	**9,118**	**9,118**	2,868	2,868

19 INVESTMENTS

	Group		Bank	
	2009	2008	**2009**	2008
Financial assets at fair value through profit or loss (Note 19(a))	**16,855**	17,699	**11,381**	13,116
Available-for-sale investments (Note 19(b))	**244,916**	206,959	**234,060**	205,591
Held-to-maturity debt securities (Note 19(c))	**80,201**	70,373	**70,397**	66,217
Receivables (Note 19(d))	**35,100**	15,415	**36,420**	15,415
	377,072	310,446	**352,258**	300,339

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(a) Financial assets at fair value through profit or loss

	Group		Bank	
	2009	2008	**2009**	2008
(i) Trading assets				
Listed				
In the Mainland				
– PRC government bonds	**458**	352	**458**	352
– bonds issued by the PBOC	**1,319**	2,873	**1,319**	2,873
– bonds issued by policy banks	**726**	1,585	**726**	1,585
– bonds issued by commercial banks and other financial institutions	**3,266**	2,266	**3,266**	2,266
– other debt securities	**2,532**	2,825	**2,501**	2,825
Outside the Mainland				
– PRC government bonds	**–**	47	**–**	–
– bonds issued by commercial banks and other financial institutions	**541**	593	**520**	593
– other debt securities	**188**	439	**–**	–
– equity investments	**23**	96	**–**	–
– investments in funds	**–**	1	**–**	–
	9,053	11,077	**8,790**	10,494
Unlisted				
In the Mainland				
– PRC government bonds	**46**	–	**–**	–
– bonds issued by policy banks	**64**	98	**–**	–
– bonds issued by commercial banks and other financial institutions	**118**	130	**–**	–
– investments in funds	**2**	–	**–**	–
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**187**	65	**98**	–
– other debt securities	**1,610**	1,597	**–**	–
	11,080	12,967	**8,888**	10,494
Derivative financial instruments (Note 45(h))	**999**	2,287	**896**	2,252
	12,079	15,254	**9,784**	12,746

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

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

	Group		Bank	
	2009	2008	**2009**	2008
(ii) Financial assets designated at fair value through profit or loss				
Listed				
In the Mainland				
– PRC government bonds	**251**	261	**251**	261
– other debt securities	**713**	–	**713**	–
Outside the Mainland				
– bonds issued by policy banks	**–**	66	**–**	–
– bonds issued by commercial banks and other financial institutions	**401**	118	**–**	–
– other debt securities	**2,710**	1,189	**–**	–
	4,075	1,634	**964**	261
Unlisted				
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**183**	200	**136**	–
– other debt securities	**518**	611	**497**	109
	701	811	**633**	109
	16,855	17,699	**11,381**	13,116

	Group		Bank	
	2009	2008	**2009**	2008
Financial assets at fair value through profit or loss (excluding derivative financial instruments)				
Issued by:				
Sovereigns	**3,868**	5,564	**2,028**	3,486
Banks and other financial institutions	**5,486**	5,166	**4,746**	4,444
Public sector entities	**177**	297	**–**	–
Corporates	**6,325**	4,385	**3,711**	2,934
	15,856	15,412	**10,485**	10,864

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(b) Available-for-sale investments

	Group		Bank	
	2009	2008	**2009**	2008
Listed				
In the Mainland				
– PRC government bonds	**18,199**	9,734	**18,199**	9,734
– bonds issued by the PBOC	**25,058**	52,661	**25,058**	52,661
– bonds issued by policy banks	**47,167**	34,762	**47,167**	34,762
– bonds issued by commercial banks and other financial institutions	**84,837**	46,514	**84,837**	46,514
– other debt securities	**48,778**	49,062	**48,778**	49,049
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**4,417**	4,468	**3,203**	4,307
– other debt securities	**2,224**	844	**780**	776
– equity investments	**456**	337	**190**	117
– investments in funds	**18**	11	**–**	–
	231,154	198,393	**228,212**	197,920
Unlisted				
In the Mainland				
– bonds issued by commercial banks and other financial institutions	**2,120**	6,976	**2,000**	6,976
– equity investments	**669**	609	**434**	395
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**10,518**	306	**3,038**	29
– other debt securities	**402**	644	**368**	264
– equity investments	**53**	18	**8**	7
– investments in funds	**–**	13	**–**	–
	13,762	8,566	**5,848**	7,671
	244,916	206,959	**234,060**	205,591

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(b) Available-for-sale investments *(continued)*

	Group		Bank	
	2009	2008	**2009**	2008
Issued by:				
Sovereigns	**43,588**	63,007	**43,588**	62,660
Banks and other financial institutions	**149,835**	93,578	**140,679**	92,895
Corporates	**51,493**	50,374	**49,793**	50,036
	244,916	206,959	**234,060**	205,591

(c) Held-to-maturity debt securities

	Group		Bank	
	2009	2008	**2009**	2008
Listed				
In the Mainland				
– PRC government bonds	**22,760**	15,548	**22,760**	15,548
– bonds issued by the PBOC	**12,210**	13,588	**12,210**	13,588
– bonds issued by policy banks	**4,360**	8,420	**4,360**	8,420
– bonds issued by commercial banks and other financial institutions	**29,105**	26,238	**29,105**	26,238
– other debt securities	**1,110**	1,374	**1,110**	1,374
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**1,761**	1,379	**255**	898
– other debt securities	**993**	361	**69**	265
	72,299	66,908	**69,869**	66,331

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(c) Held-to-maturity debt securities *(continued)*

	Group		Bank	
	2009	2008	**2009**	2008
Unlisted				
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**7,872**	3,496	**610**	–
– other debt securities	**214**	184	**–**	–
	8,086	3,680	**610**	–
	80,385	70,588	**70,479**	66,331
Less: Impairment allowances	**(184)**	(215)	**(82)**	(114)
	80,201	70,373	**70,397**	66,217
Issued by:				
Sovereigns	**35,185**	29,280	**35,020**	29,258
Banks and other financial institutions	**42,933**	39,336	**34,267**	35,462
Public sector entities	**9**	24	**–**	–
Corporates	**2,074**	1,733	**1,110**	1,497
	80,201	70,373	**70,397**	66,217
Fair value of listed debt securities	**75,302**	68,831	**70,448**	68,291

Movements of allowances for impairment losses

	Group		Bank	
	2009	2008	**2009**	2008
As at 1 January	**215**	–	**114**	–
Addition through acquisition of subsidiaries	**–**	84	**–**	–
Charge for the year (Note 11)	**–**	199	**–**	114
Reversal for the year (Note 11)	**(31)**	–	**(31)**	–
Write-offs	**–**	(68)	**–**	–
Exchange difference	**–**	–	**(1)**	–
As at 31 December	**184**	215	**82**	114

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(d) Receivables

	Group		Bank	
	2009	2008	**2009**	2008
Unlisted				
In the Mainland				
– PRC government bonds	**5,600**	5,789	**5,600**	5,789
– bonds issued by the PBOC	**16,889**	8,000	**16,889**	8,000
– bonds issued by commercial banks and other financial institutions	**778**	578	**778**	578
– other debt securities	**10,959**	–	**10,959**	–
	34,226	14,367	**34,226**	14,367
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	**936**	877	**2,256**	877
– other debt securities	**–**	233	**–**	233
	936	1,110	**2,256**	1,110
	35,162	15,477	**36,482**	15,477
Less: Impairment allowances	**(62)**	(62)	**(62)**	(62)
	35,100	15,415	**36,420**	15,415
Issued by:				
Sovereigns	**22,489**	13,789	**22,489**	13,789
Banks and other financial institutions	**1,651**	1,393	**2,971**	1,393
Corporates	**10,960**	233	**10,960**	233
	35,100	15,415	**36,420**	15,415

Movements of allowances for impairment losses

	Group and Bank	
	2009	2008
As at 1 January	**62**	–
Charge for the year (Note 11)	**–**	62
As at 31 December	**62**	62

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(d) Receivables *(continued)*

Receivables are unlisted bearer's national bonds issued by the PRC government and other debt investments which are not quoted in an active market in the PRC or overseas. Accordingly, the Group is unable to disclose their market values.

(e) Trading liabilities

	Group		Bank	
	2009	2008	**2009**	2008
Short positions in exchange fund bill and notes at fair value:				
– listed	**1**	1	**–**	–
– unlisted	**29**	523	**–**	–
	30	524	**–**	–

(f) Financial liabilities designated at fair value through profit or loss

	Group		Bank	
	2009	2008	**2009**	2008
Unlisted				
Outside the Mainland				
– certificates of deposit issued	**1,173**	1,208	**819**	–
– structured deposit	**–**	620	**–**	–
	1,173	1,828	**819**	–

(g) Fair values of financial instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 – Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2 – Valuation techniques based on observable inputs, either directly (i. e., as prices) or indirectly (i. e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(g) Fair values of financial instruments *(continued)*

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	2009							
	The Group				The Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading assets								
– Debt securities	2,625	8,430	–	11,055	490	8,398	–	8,888
– Positive fair values of derivatives	–	942	57	999	–	875	21	896
– Equity investments	23	–	–	23	–	–	–	–
– Investments in funds	2	–	–	2	–	–	–	–
	2,650	9,372	57	12,079	490	9,273	21	9,784
Financial assets designated at fair value through profit or loss								
– Debt securities	3,111	964	701	4,776	–	964	633	1,597
Available-for-sale financial assets								
– Debt securities	10,130	233,590	–	243,720	2,810	230,618	–	233,428
– Equity investments	266	225	–	491	–	190	–	190
– Investments in funds	18	–	–	18	–	–	–	–
	10,414	233,815	–	244,229	2,810	230,808	–	233,618
	16,175	244,151	758	261,084	3,300	241,045	654	244,999
Liabilities								
Trading liabilities								
– Treasury bills (including Exchange Fund Bills)	30	–	–	30	–	–	–	–
– Negative fair value of derivatives	–	1,030	444	1,474	–	956	18	974
	30	1,030	444	1,504	–	956	18	974
Financial liabilities designated at fair value through profit or loss								
– Structured certificates of deposit issued	–	354	819	1,173	–	–	819	819
	30	1,384	1,263	2,677	–	956	837	1,793

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(g) Fair values of financial instruments *(continued)*

During the year there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

(i) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	The Group		
	Trading assets – Positive fair value of derivatives	**Financial assets designated at fair value through profit or loss – debt securities**	**Total**
Assets			
At 1 January 2009	115	811	926
Purchases	–	68	68
Sales	–	(292)	(292)
Changes in fair value recognised in the consolidated income statement:			
– Net trading income	(58)	–	(58)
– Net income from financial instruments designated at fair value through profit and loss	–	114	114
At 31 December 2009	57	701	758
Total gains or losses for the year included in the consolidated income statement for assets held at the balance sheet date recorded in:			
– Net trading income	68	–	68
– Net income from financial instruments designated at fair value through profit and loss	–	95	95

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

	The Group		
	Trading liabilities – Negative value derivatives	**Financial liabilities designated at fair value through profit or loss – Structured certificates of deposit issued**	**Total**
Liabilities			
At 1 January 2009	248	–	248
Issues	–	819	819
Changes in fair value recognised in the consolidated income statement:			
– Net trading income	196	–	196
At 31 December 2009	444	819	1,263
Total gains or losses for the year included in the consolidated income statement for liabilities held at balance sheet date recorded in:			
– Net trading income	326	–	326

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

	The Bank		
	Trading assets – Positive fair value of derivatives	**Financial assets designated at fair value through profit or loss – debt securities**	**Total**
Assets			
At 1 January 2009	115	468	583
Purchases	–	68	68
Changes in fair value recognised in the income statement:			
– Net trading income	(94)	–	(94)
– Net income from financial instruments designated at fair value through profit and loss	–	97	97
At 31 December 2009	21	633	654
Total gains or losses for the year included in the income statement for assets held at the balance sheet date recorded in:			
– Net trading income	32	–	32
– Net income from financial instruments designated at fair value through profit and loss	–	97	97

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs (continued)

	The Bank		
	Trading liabilities – Negative value derivatives	Financial liabilities designated at fair value through profit or loss – Structured certificates of deposit issued	Total
Liabilities			
At 1 January 2009	118	–	118
Issues	–	819	819
Changes in fair value recognised in the income statement:			
– Net trading income	(100)	–	(100)
At 31 December 2009	18	819	837
Total gains or losses for the year included in the income statement for liabilities held at balance sheet date recorded in:			
– Net trading income	(29)	–	(29)

(ii) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values due to parallel movement of plus or minus 10 per cent of change in fair value to reasonably possible alternative assumptions.

(Expressed in millions of Renminbi unless otherwise stated)

19 INVESTMENTS *(continued)*

(g) Fair values of financial instruments *(continued)*

(ii) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions (continued)

	The Group		The Bank	
	2009		2009	
	Effect on profit or loss		Effect on profit or loss	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Trading assets – Positive fair value of derivatives	6	(6)	2	(2)
Financial assets designated at fair value through profit or loss – Debt securities	70	(70)	63	(63)
	76	(76)	65	(65)
Trading liabilities – Negative fair value of derivatives	44	(44)	2	(2)
Financial liabilities designated at fair value through profit loss – Structured certificates of deposit issued	82	(82)	82	(82)
	126	(126)	84	(84)

(h) *(i) CIGNA & CMC Life Insurance Company Limited*

On 5 May 2008, the Bank entered into an agreement with Shenzhen Municipal Dingzun Investment Advisory Company ("Dingzun") to acquire 50% equity interest in CIGNA & CMC Life Insurance Company Limited ("CIGNA & CMC Life Insurance") for a total consideration of RMB141.9 million. The completion of the acquisition is subject to obtaining approvals from relevant regulatory authorities including the China Securities Regulatory Commission (the "CSRC"), the China Banking Regulatory Commission (the "CBRC") and the China Insurance Regulatory Commission ("CIRC"). As of 31 December 2009, the proposed acquisition has not yet been approved by the relevant regulatory authorities.

(ii) Trust & Investment Corporation of Tibet Autonomous Region

On 18 September 2008, the Bank entered into the framework agreement with the Tibet Autonomous Region Finance Bureau to acquire 60.5% equity interest in Trust & Investment Corporation of Tibet Autonomous Region ("Tibet Trust"). As of 31 December 2009, the completion of the acquisition is subject to obtaining approvals from relevant regulatory authorities including the CSRC and CBRC.

20 INTEREST IN ASSOCIATES

	Group		Bank	
	2009	2008	**2009**	2008
Unlisted shares, at cost	**–**	–	**191**	191
Share of net assets	**193**	152	**–**	–
Goodwill	**114**	114	**–**	–
	307	266	**191**	191
Less: Impairment allowance	**(1)**	–	**–**	–
	306	266	**191**	191

The following list contains only the particulars of associates as of 31 December 2009, which are unlisted corporate entities and principally affected the results or assets of the Group:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Proportion of ownership interest: Group's effective interest	Held by the Bank	Held by the subsidiary	Principal activity
China Merchants Fund Management Company Limited	Incorporated	Shenzhen	RMB210,000	33.40%	33.40%	–	Asset management
Professional Liability Underwriting Services Limited	Incorporated	Hong Kong	HK$3,000	27.00%	–	27.00%	Insurance Underwriting
Equity Underwriters Limited	Incorporated	Hong Kong	HK$3,950	40.00%	–	40.00%	Insurance Underwriting

Summary financial information on associates (China Merchants Fund Management Company Limited)

	Assets	Liabilities	Equity	Revenues	Profit
2009					
100 per cent	**748**	**144**	**604**	**506**	**141**
Group's effective interest	**250**	**48**	**187**	**160**	**40**
2008					
100 per cent	660	197	463	643	241
Group's effective interest	220	66	147	205	37

(Expressed in millions of Renminbi unless otherwise stated)

20 INTEREST IN ASSOCIATES *(continued)*

Summary financial information on associates (Others)

	Assets	Liabilities	Equity	Revenues	Profit
2009					
100 per cent	**101**	**80**	**21**	**31**	**8**
Group's effective interest	**28**	**22**	**6**	**10**	**2**
2008					
100 per cent	141	123	18	7	–
Group's effective interest	44	39	5	2	–

21 INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group		Bank	
	2009	2008	**2009**	2008
Share of net assets	**112**	82	**–**	–
Loan to jointly controlled entities	**48**	54	**–**	–
	160	136	**–**	–

21 INTEREST IN JOINTLY CONTROLLED ENTITIES *(continued)*

Details of the Group's interest in the jointly controlled entities are as follows:

Name of jointly controlled entitles	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Proportion of ownership interest: Group's effective interest	Held by the Bank	Held by the subsidiary	Principal activity
Bank Consortium Holding Limited (note (i))	Incorporated	Hong Kong	HK$150,000	13.33%	–	14.29%	Provision of trustee, administration and custodian services for retirement schemes
Joint Electronic Teller Services Limited (note (ii))	Incorporated	Hong Kong	HK$10,024	2.88%	–	20.00%	Provision of ATM network services
Hong Kong Life Insurance Limited	Incorporated	Hong Kong	HK$420,000	16.67%	–	16.67%	Life insurance business
BC Reinsurance Limited	Incorporated	Hong Kong	HK$100,000	21.00%	–	21.00%	Reinsurance business
i-Tech Solutions Limited	Incorporated	Hong Kong	HK$6,000	50.00%	–	50.00%	Electronic document processing

Summary financial information on jointly controlled entitles:

	Assets	Liabilities	Equity	Revenues	Profit/(loss)
2009					
100 per cent	**4,245**	**3,386**	**859**	**321**	**167**
Group's effective interest	**659**	**548**	**111**	**44**	**27**
2008					
100 per cent	3,638	2,945	693	66	(132)
Group's effective interest	561	479	82	8	(26)

Notes:

(i) The Bank's subsidiary, Wing Lung Bank holds 14.29% of the entity's common share and is entitled to 13.33% of the paid dividends.

(ii) The Bank's subsidiary, Wing Lung Bank is one of the five founders of the entity and jointly control the entity. Wing Lung Bank holds 20% of the entity's common share and is entitled to 2.88% of the paid dividends.

(Expressed in millions of Renminbi unless otherwise stated)

22 FIXED ASSETS

2009

	Group						
	Land and buildings	Investment properties (note 22(b))	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:							
At 1 January 2009	8,004	2,594	2,305	4,838	2,294	1,534	21,569
Additions	173	–	1,189	744	786	396	3,288
Transfers	433	(120)	(478)	–	136	16	(13)
Disposals/write-offs	(100)	–	–	(326)	(125)	(97)	(648)
At 31 December 2009	8,510	2,474	3,016	5,256	3,091	1,849	24,196
Accumulated depreciation:							
At 1 January 2009	1,565	188	–	2,932	947	875	6,507
Depreciation	393	123	–	1,034	403	241	2,194
Transfers	7	(8)	–	–	–	–	(1)
Written back on disposals/ write-offs	(29)	–	–	(297)	(98)	(88)	(512)
At 31 December 2009	1,936	303	–	3,669	1,252	1,028	8,188
Net book value:							
At 31 December 2009	6,574	2,171	3,016	1,587	1,839	821	16,008
At 1 January 2009	6,439	2,406	2,305	1,906	1,347	659	15,062

(Expressed in millions of Renminbi unless otherwise stated)

22 FIXED ASSETS *(continued)*

2008

	Group						
	Land and buildings	Investment properties (note 22(b))	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:							
At 1 January 2008	5,065	531	1,411	3,828	1,801	1,202	13,838
Additions through acquisition of subsidiaries	2,839	2,095	–	52	62	21	5,069
Additions	93	–	1,442	1,502	652	384	4,073
Transfers	209	(32)	(548)	–	17	5	(349)
Disposals/write-offs	(202)	–	–	(544)	(238)	(78)	(1,062)
At 31 December 2008	8,004	2,594	2,305	4,838	2,294	1,534	21,569
Accumulated depreciation:							
At 1 January 2008	1,385	137	–	1,927	935	732	5,116
Depreciation	283	56	–	1,220	238	207	2,004
Transfers	5	(5)	–	–	–	–	–
Written back on disposals/write-offs	(108)	–	–	(215)	(226)	(64)	(613)
At 31 December 2008	1,565	188	–	2,932	947	875	6,507
Net book value:							
At 31 December 2008	6,439	2,406	2,305	1,906	1,347	659	15,062
At 1 January 2008	3,680	394	1,411	1,901	866	470	8,722

(Expressed in millions of Renminbi unless otherwise stated)

22 FIXED ASSETS *(continued)*

2009

	Bank						
	Land and buildings	Investment properties (note 22(b))	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:							
At 1 January 2009	5,150	469	2,305	4,776	2,225	1,508	16,433
Additions	173	–	1,189	670	764	386	3,182
Transfers	343	(17)	(478)	–	136	16	–
Disposals/write-offs	(100)	–	–	(286)	(123)	(95)	(604)
At 31 December 2009	5,566	452	3,016	5,160	3,002	1,815	19,011
Accumulated depreciation:							
At 1 January 2009	1,527	159	–	2,924	941	872	6,423
Depreciation	247	21	–	996	386	233	1,883
Transfers	5	(5)	–	–	–	–	–
Written back on disposals/write-offs	(29)	–	–	(258)	(97)	(86)	(470)
At 31 December 2009	1,750	175	–	3,662	1,230	1,019	7,836
Net book value:							
At 31 December 2009	3,816	277	3,016	1,498	1,772	796	11,175
At 1 January 2009	3,623	310	2,305	1,852	1,284	636	10,010

(Expressed in millions of Renminbi unless otherwise stated)

22 FIXED ASSETS *(continued)*

2008

	Bank						
	Land and buildings	Investment properties (note 22(b))	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:							
At 1 January 2008	5,050	499	1,411	3,825	1,798	1,201	13,784
Additions	93	–	1,442	1,495	645	380	4,055
Transfers	207	(30)	(548)	–	17	5	(349)
Disposals/write-offs	(200)	–	–	(544)	(235)	(78)	(1,057)
At 31 December 2008	5,150	469	2,305	4,776	2,225	1,508	16,433
Accumulated depreciation:							
At 1 January 2008	1,384	136	–	1,926	932	731	5,109
Depreciation	246	28	–	1,213	232	205	1,924
Transfers	5	(5)	–	–	–	–	–
Written back on disposals/write-offs	(108)	–	–	(215)	(223)	(64)	(610)
At 31 December 2008	1,527	159	–	2,924	941	872	6,423
Net book value:							
At 31 December 2008	3,623	310	2,305	1,852	1,284	636	10,010
At 1 January 2008	3,666	363	1,411	1,899	866	470	8,675

(Expressed in millions of Renminbi unless otherwise stated)

22 FIXED ASSETS *(continued)*

(a) Analysed by remaining terms of leases

The net book value of land and buildings, and investment properties at the balance sheet date is analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2009	2008	**2009**	2008
Held in Mainland China				
– long leases (over 50 years)	**408**	508	**405**	506
– medium-term leases (10 – 50 years)	**3,683**	3,427	**3,654**	3,396
	4,091	3,935	**4,059**	3,902
Held in Hong Kong				
– long leases (over 50 years)	**1,530**	4,222	**–**	–
– medium-term leases (10 – 50 years)	**3,096**	658	**34**	31
	4,626	4,880	**34**	31
Held in Overseas				
– freehold	**28**	30	**–**	–
	8,745	8,845	**4,093**	3,933

(b) Investment properties of the Group mainly represent WLB leasing properties and the portion of the Bank's headquarters in Shenzhen that has been leased out under operating leases or is available for lease. As at 31 December 2009, fair value of these properties was RMB2.79 billion (2008: RMB2.86 billion). The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	Group		Bank	
	2009	2008	**2009**	2008
1 year or less	**138**	151	**48**	54
5 years or less but over 1 year	**131**	158	**37**	50
Over 5 years	**–**	1	**–**	1
	269	310	**85**	105

(c) As at 31 December 2009, the Board of Directors considered that there was no impairment loss on fixed assets (2008: nil).

(d) As at 31 December 2009, ownership documentation for the Group's properties with a net carrying value of RMB553 million (2008: RMB115 million) was being finalised.

(Expressed in millions of Renminbi unless otherwise stated)

23 INTANGIBLE ASSETS

2009

	Group				
	Land use right	**Software**	**Trademark**	**Core deposit**	**Total**
Cost/Valuation:					
At 1 January 2009	**1,021**	**330**	**10**	**1,156**	**2,517**
Additions	**76**	**191**	**–**	**–**	**267**
Transfers	**13**	**–**	**–**	**–**	**13**
At 31 December 2009	**1,110**	**521**	**10**	**1,156**	**2,797**
Amortization:					
At 1 January 2009	**43**	**82**	**1**	**10**	**136**
Additions	**91**	**47**	**5**	**40**	**183**
Transfers	**1**	**–**	**–**	**–**	**1**
At 31 December 2009	**135**	**129**	**6**	**50**	**320**
Net book value:					
At 31 December 2009	**975**	**392**	**4**	**1,106**	**2,477**
At 1 January 2009	**978**	**248**	**9**	**1,146**	**2,381**

2008

	Group				
	Land use right	Software	Trademark	Core deposit	Total
Cost/Valuation:					
At 1 January 2008	387	209	–	–	596
Additions through acquisition of subsidiaries	210	1	10	1,156	1,377
Addition	75	121	–	–	196
Transfers	349	–	–	–	349
Disposals	–	(1)	–	–	(1)
At 31 December 2008	1,021	330	10	1,156	2,517
Amortization:					
At 1 January 2008	26	52	–	–	78
Additions	17	30	1	10	58
At 31 December 2008	43	82	1	10	136
Net book value:					
At 31 December 2008	978	248	9	1,146	2,381
At 1 January 2008	361	157	–	–	518

(Expressed in millions of Renminbi unless otherwise stated)

23 INTANGIBLE ASSETS *(continued)*

2009

	Bank		
	Land use right	**Software**	**Total**
Cost/Valuation:			
At 1 January 2009	**811**	**329**	**1,140**
Additions	**75**	**191**	**266**
At 31 December 2009	**886**	**520**	**1,406**
Amortization:			
At 1 January 2009	**42**	**81**	**123**
Additions	**87**	**47**	**134**
At 31 December 2009	**129**	**128**	**257**
Net book value:			
At 31 December 2009	**757**	**392**	**1,149**
At 1 January 2009	**769**	**248**	**1,017**

(Expressed in millions of Renminbi unless otherwise stated)

23 INTANGIBLE ASSETS *(continued)*

2008

	Bank		
	Land use right	Software	Total
Cost/Valuation:			
At 1 January 2008	387	209	596
Additions	75	121	196
Transfers	349	–	349
Disposals	–	(1)	(1)
At 31 December 2008	811	329	1,140
Amortization:			
At 1 January 2008	26	52	78
Additions	16	29	45
At 31 December 2008	42	81	123
Net book value:			
At 31 December 2008	769	248	1,017
At 1 January 2008	361	157	518

(Expressed in millions of Renminbi unless otherwise stated)

24 DEFERRED TAX ASSETS/LIABILITIES

	Group		Bank	
	2009	2008	**2009**	2008
Deferred tax assets	**2,786**	2,521	**2,710**	2,443
Deferred tax liabilities	**(941)**	(848)	**–**	–
Total	**1,845**	1,673	**2,710**	2,443

(a) Nature of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) are as follows:

	Group		Bank	
	2009	2008	**2009**	2008
Impairment losses on loans and advances to customers and other assets	**2,199**	3,198	**2,179**	3,182
Investment revaluation reserve	**96**	(708)	**105**	(708)
Deductible salary expenses	**454**	–	**454**	–
Others	**(904)**	(817)	**(28)**	(31)
	1,845	1,673	**2,710**	2,443

(Expressed in millions of Renminbi unless otherwise stated)

24 DEFERRED TAX ASSETS/LIABILITIES *(continued)*

(b) Movements of deferred tax

	Group				
	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary expenses	Others	Total
At 1 January 2009	**3,198**	**(708)**	**–**	**(817)**	**1,673**
Recognised in the consolidated income statement	**(999)**	**–**	**454**	**(86)**	**(631)**
– due to timing differences	**(837)**	**–**	**454**	**(84)**	**(467)**
– due to income tax rate change	**(162)**	**–**	**–**	**(2)**	**(164)**
Recognised in reserves	**–**	**804**	**–**	**(1)**	**803**
– due to timing differences	**–**	**909**	**–**	**(1)**	**908**
– due to income tax rate change	**–**	**(105)**	**–**	**–**	**(105)**
At 31 December 2009	**2,199**	**96**	**454**	**(904)**	**1,845**
At 1 January 2008	2,038	103	144	(123)	2,162
Addition through acquisition of subsidiaries	16	8	–	(913)	(889)
Recognised in the consolidated income statement	1,144	–	(144)	213	1,213
– due to timing differences	883	–	(144)	230	969
– due to income tax rate change	261	–	–	(17)	244
Recognised in reserves	–	(819)	–	6	(813)
– due to timing differences	–	(830)	–	6	(824)
– due to income tax rate change	–	11	–	–	11
At 31 December 2008	3,198	(708)	–	(817)	1,673

(Expressed in millions of Renminbi unless otherwise stated)

24 DEFERRED TAX ASSETS/LIABILITIES *(continued)*

(b) Movements of deferred tax *(continued)*

	Bank				
	Impairment losses on loans and advances to customers and other assets	**Investment revaluation reserve**	**Deductible salary expenses**	**Others**	**Total**
At 1 January 2009	**3,182**	**(708)**	**–**	**(31)**	**2,443**
Recognised in the consolidated income statement	**(1,003)**	**–**	**454**	**3**	**(546)**
– due to timing differences	**(841)**	**–**	**454**	**5**	**(382)**
– due to income tax rate change	**(162)**	**–**	**–**	**(2)**	**(164)**
Recognised in reserves	**–**	**813**	**–**	**–**	**813**
– due to timing differences	**–**	**918**	**–**	**–**	**918**
– due to income tax rate change	**–**	**(105)**	**–**	**–**	**(105)**
At 31 December 2009	**2,179**	**105**	**454**	**(28)**	**2,710**
At 1 January 2008	2,038	103	144	(123)	2,162
Recognised in the consolidated income statement	1,144	–	(144)	92	1,092
– due to timing differences	883	–	(144)	109	848
– due to income tax rate change	261	–	–	(17)	244
Recognised in reserves	–	(811)	–	–	(811)
– due to timing differences	–	(822)	–	–	(822)
– due to income tax rate change	–	11	–	–	11
At 31 December 2008	3,182	(708)	–	(31)	2,443

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Tax Law") which will take effect on 1 January 2008. As a result of New Tax Law, the income tax rate applicable to the Bank's business in areas other than Shenzhen is 25%, the income tax rate for the Bank's business in Shenzhen will gradually increase from 20% to the standard rate of 25% (being 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012).

(Expressed in millions of Renminbi unless otherwise stated)

25 GOODWILL

	Group	
	2009	2008
At 1 January	**9,598**	–
Addition through acquisition of a subsidiary	**–**	10,177
Impairment	**–**	(579)
At 31 December	**9,598**	9,598

The goodwill arose from the acquisition of Wing Lung Bank Limited on 30 September 2008.

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU"), Wing Lung Bank Limited which was acquired on 30 September 2008.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In assessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of Wing Lung Bank Limited. A discount rate of 12% (2008: 11%) was used.

(Expressed in millions of Renminbi unless otherwise stated)

26 OTHER ASSETS

	Group		Bank	
	2009	2008	**2009**	2008
Interest receivable				
– debt securities	**3,816**	3,548	**3,729**	3,504
– loans and advances to customers	**1,883**	1,778	**1,824**	1,691
– others	**313**	359	**301**	316
	6,012	5,685	**5,854**	5,511
Amounts pending for settlement	**314**	319	**129**	223
Repossessed assets (note)	**84**	84	**84**	84
Prepaid lease payments	**368**	266	**363**	262
Receivables for debt securities disposed	**–**	1,048	**–**	849
Deposits	**221**	122	**221**	122
Prepayment for lease improvement and other miscellaneous items	**166**	236	**166**	236
Continuing involvement assets	**409**	409	**409**	409
Remainder of mandatory acquisition of Wing Lung Bank	**–**	700	**–**	700
Premium receivables	**113**	155	**–**	–
Recoverable from reinsurers	**156**	138	**–**	–
Retirement benefit scheme (note 32(a)(ii))	**175**	188	**–**	–
Finance leasing assets	**1,373**	–	**–**	–
Income tax receivables	**76**	75	**–**	–
Others	**1,958**	1,141	**1,266**	837
	11,425	10,566	**8,492**	9,233

Note: During the year ended 31 December 2009 the Group has taken possession of collateral it holds as security with the nature and carrying amounts analysed as follows:

	Group and Bank	
	2009	2008
Nature		
Residential properties	**886**	994
Others	**289**	280
	1,175	1,274
Less: Impairment allowances	**(1,091)**	(1,190)
	84	84

Repossessed assets obtained are intended for an orderly realisation of the impaired loans and advances and are not intended for the own use of the Group.

(Expressed in millions of Renminbi unless otherwise stated)

27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2009	2008	**2009**	2008
Deposits from banks	**30,656**	25,150	**29,994**	25,024
Deposits from other financial institutions	**155,545**	90,642	**155,542**	90,718
	186,201	115,792	**185,536**	115,742

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2009	2008	**2009**	2008
Money market takings				
– banks	**44,321**	37,842	**35,556**	37,296
Balances under repurchase agreements (note)				
– banks	**27,109**	4,840	**27,109**	4,840
– other financial institutions	**1,573**	946	**1,573**	646
	28,682	5,786	**28,682**	5,486
Rediscounted bills	**5,915**	6,496	**5,915**	6,496
	78,918	50,124	**70,153**	49,278

Note: Assets sold under the above repurchase agreements are registered national bonds issued by the PRC government, bonds issued by PBOC, policy banks, other debt securities, bills and loans of equivalent amounts.

(Expressed in millions of Renminbi unless otherwise stated)

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS
(continued)

(b) Analysed by geographical location

	Group		Bank	
	2009	2008	**2009**	2008
Money market takings				
– banks in the Mainland	**41,398**	36,394	**33,872**	36,410
– banks outside the Mainland	**2,923**	1,448	**1,684**	886
	44,321	37,842	**35,556**	37,296
Balances under repurchase agreements				
– banks in the Mainland	**27,109**	4,840	**27,109**	4,840
– other financial institutions in the Mainland	**1,573**	946	**1,573**	646
	28,682	5,786	**28,682**	5,486
Rediscounted bills				
– banks in the Mainland	**5,915**	6,496	**5,915**	6,496
	78,918	50,124	**70,153**	49,278

29 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2009	2008	**2009**	2008
Demand deposits				
– corporate customers	**520,734**	373,222	**511,712**	367,543
– retail customers	**359,783**	268,220	**337,756**	253,164
	880,517	641,442	**849,468**	620,707
Time deposits				
– corporate customers	**448,391**	352,499	**428,447**	333,754
– retail customers	**279,238**	256,707	**249,026**	223,779
	727,629	609,206	**677,473**	557,533
	1,608,146	1,250,648	**1,526,941**	1,178,240

(Expressed in millions of Renminbi unless otherwise stated)

30 ISSUED DEBT SECURITIES

(a) Certificates of deposit issued

As at the balance sheet date, certificates of deposit issued by the Bank were as follows:

Terms	Date of issue	Annual interest rate	Nominal value	Carrying amount	
		(%)		**2009**	2008
			(in US$ million)		
12 months	4 November 2008	LIBOR+0.30%	45	**–**	307
12 months	25 May 2009	LIBOR+0.26%	50	**341**	–
12 months	28 July 2009	LIBOR+0.29%	20	**137**	–
12 months	28 July 2009	LIBOR+0.29%	17	**116**	–
12 months	28 July 2009	LIBOR+0.29%	25	**171**	–
12 months	14 September 2009	LIBOR+0.25%	20	**137**	–
24 months	29 September 2009	LIBOR+0.32%	20	**137**	–
24 months	29 September 2009	LIBOR+0.32%	20	**137**	–
18 months	2 November 2009	LIBOR+0.34%	25	**171**	–
18 months	2 November 2009	LIBOR+0.34%	25	**171**	–
			(in HK$ million)		
12 months	10 January 2008	3.50%	500	**–**	440
24 months	16 April 2008	HIBOR+0.40%	220	**194**	194
12 months	24 July 2009	HIBOR+0.19%	78	**68**	–
12 months	2 September 2009	HIBOR+0.24%	268	**235**	–
24 months	3 September 2009	HIBOR+0.26%	200	**176**	–
24 months	28 October 2009	HIBOR+0.30%	150	**132**	–
18 months	12 November 2009	HIBOR+0.26%	150	**132**	–
24 months	12 November 2009	HIBOR+0.30%	150	**132**	–
24 months	20 November 2009	HIBOR+0.30%	150	**132**	–
				2,719	941

(Expressed in millions of Renminbi unless otherwise stated)

30 ISSUED DEBT SECURITIES *(continued)*

(a) Certificates of deposit issued *(continued)*

As at the balance sheet date, certificates of deposit issued by WLB were as follows:

Terms	Date of issue	Annual Interest Rate	Nominal value	Carrying amount	
		(%)		**2009**	2008
			(in US$ million)		
12 months	21 April 2008	LIBOR+0.40%	25	**–**	170
6 months	4 September 2008	LIBOR+0.30%	30	**–**	205
12 months	4 September 2009	LIBOR+0.185%	100	**682**	–
			(in HK$ million)		
36 months	27 March 2006	HIBOR+0.12%	115	**–**	101
36 months	2 November 2006	HIBOR+0.08%	150	**–**	132
36 months	8 March 2007	HIBOR+0.08%	120	**106**	106
24 months	24 January 2008	HIBOR+0.10%	110	**97**	97
36 months	24 January 2008	HIBOR+0.18%	100	**88**	88
12 months	7 April 2009	HIBOR+0.20%	380	**334**	–
12 months	26 May 2009	HIBOR+0.27%	190	**167**	–
12 months	26 May 2009	HIBOR+0.27%	150	**132**	–
12 months	6 July 2009	HIBOR+0.23%	156	**137**	–
				1,743	899
				4,462	1,840

Interest on all these certificates of deposit are payable quarterly.

(b) Convertible bonds issued

On 10 November 2004, the Bank issued a 5-year convertible bond with a nominal value of RMB6,500 million. The interest rates are 1.0% for the first year, 1.375% for the second year, 1.75% for the third year, 2.125% for the forth year and 2.5% for the fifth year, payable on 10 November each year. The convertible bonds can be converted into the Bank's shares at the holder's option at RMB9.34 per share during the period from 10 May 2005 to 10 November 2009. Upon maturity, an additional 6% interest will be given to bond holders who have not converted the bonds into shares.

The conversion price of the bonds was revised from RMB9.34 per share to RMB6.23 per share with effect from 17 June 2005 following the issue of bonus shares by the Bank in 2005.

The conversion price of the bonds has been further revised from RMB6.23 per share to RMB5.74 per share with effect from 24 February 2006 following the issue of bonus shares by the Bank in 2006.

(Expressed in millions of Renminbi unless otherwise stated)

30 ISSUED DEBT SECURITIES *(continued)*

(b) Convertible bonds issued *(continued)*

On 3 July 2009, the Bank implemented the Profit Appropriations Scheme for 2008, pursuant to which RMB1 (tax included) in cash was distributed for every 10 shares held together with a bonus issue of 3 bonus shares for every 10 shares held. Accordingly, the conversion price of the bonds was adjusted from RMB5.74 per share to RMB4.42 per share.

On 25 September 2006, the convertible bonds of the Bank in circulation were less than RMB30 million. Pursuant to the relevant requirements, the convertible bonds were suspended for trading with effect from 29 September 2006. Holders of convertible bonds can convert the bonds into share anytime before the conversion period expires.

The Bank has an early redemption option which commences six months after the bonds' issue date and lapses on the maturity date. During that period, the Bank may redeem any outstanding convertible bonds at 103% of the nominal value of the convertible bonds plus the accrued interest if the closing price of the Bank's listed A-Shares is more than 125% of the then applicable conversion price for 20 consecutive business days.

During the final year before the maturity date of the convertible bonds, if the last traded price of the Bank's listed A-Shares falls below 75% of the conversion price for 20 consecutive trading days, the bond holders can exercise the put option to sell to the Bank all or a portion of the outstanding bonds at 108.5% (including accrued interest) of the nominal value of the convertible bonds. Details of the convertible bonds are as follows:

	Group and Bank	
	2009	2008
Initial recognition:		
– Nominal value	**6,500**	6,500
– Issuance cost	**(65)**	(65)
– Equity component	**(918)**	(918)
Liability component at issue date	**5,517**	5,517
Accretion	**235**	235
Amounts converted to shares	**(5,751)**	(5,750)
Payment at maturity	**(1)**	–
Liability component as at 31 December	**–**	2

The 5-year convertible bonds issued by the Bank were matured on 10 November 2009.

(Expressed in millions of Renminbi unless otherwise stated)

30 ISSUED DEBT SECURITIES *(continued)*

(c) Other debts issued

					Group and Bank	
				Nominal	Carrying amount	
Particulars	Terms	Date of issue	Annual fixed interest Rate	value	2009	2008
			(%)	(in million)		
Fixed term notes	60 months	From 13 October 2005 to 26 October 2005	2.56	5,000	**4,998**	4,996

The CBRC and the PBOC approved the Bank's issuance of a total of RMB15,000 million fixed term notes on 29 September 2005 (Yin Jian Fu【2005】No. 252) and 9 October 2005 (Yin Fu【2005】No. 75). The Bank issued a total of RMB10,000 million fixed rate term notes during the period from 13 October 2005 to 26 October 2005. Interest on these notes is payable annually.

(d) Subordinated notes issued

As at the balance sheet date, subordinated notes issued by the Bank were as follows:

				Nominal	Carrying amount	
Particulars	Terms	Date of issue	Annual fixed interest rate	value	2009	2008
			(%)	(in RMB million)		
Fixed rate notes (note (i))	61 months	from 31 March 2004 to 10 June 2004	4.59 to 5.10	3,500	**–**	3,500
Fixed rate notes (note (ii))	120 months	4 September 2008	5.70 (for the first 5 years); 8.70 (from 6 year onwards, if the notes are not called by the Bank)	19,000	**18,969**	18,962
Fixed rate notes (note (ii))	180 months	4 September 2008	5.90 (for the first 10 years); 8.90 (from 11 year onwards, if the notes are not called by the Bank)	7,000	**6,987**	6,986
Floating rate notes (note (ii))	120 months	4 September 2008	R*+1.53% (for the first 5 years); R*+4.53% (from 6 years onwards, if the notes are not called by the Bank)	4,000	**3,994**	3,992
					29,950	33,440

(Expressed in millions of Renminbi unless otherwise stated)

30 ISSUED DEBT SECURITIES *(continued)*

(d) Subordinated notes issued *(continued)*

As at the balance sheet date, subordinated note issued by WLB was as follows:

Particulars	Terms	Date of issue	Annual fixed interest rate	Nominal value	Carrying amount 2009	Carrying amount 2008
			(%)	(in RMB million)		
Fixed rate notes	144 months	28 December 2009	5.70	1,500	**1,321**	–
					31,271	33,440

* R represents the 1-year fixed deposit rate ("Rate") promulgated by PBOC. The Rate on 4 September 2008 was 4.14%.

Notes:

(i) The CBRC approved the Bank's issuance of RMB3,500 million subordinated notes on 30 March 2004 (Yin Jian Fu【2004】No. 36), and the amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio. Interest on the subordinated notes is payable annually.

(ii) The CBRC and PBOC approved the Bank's issuance of RMB30 billion subordinated notes on 12 August 2008 (Yin Jian Fu【2008】No.304 entitled "The Approval of the issuance of subordinated bonds by China Merchants Bank" and Yin Shi Chang Xu Zhun Yu Zi【2008】No. 25 entitle "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB26 billion fixed rate notes and RMB4 billion floating rate notes on 4 September 2008 to institutional investors on the China Interbank Bond Market. The amount has been included as supplementary capital in calculating the Bank's capital adequacy ratio.

(Expressed in millions of Renminbi unless otherwise stated)

31 OTHER LIABILITIES

	Group		Bank	
	2009	2008	**2009**	2008
Interest payable				
– Issued debt securities	**565**	590	**564**	587
– Customer deposit and others	**7,733**	7,549	**7,643**	7,398
	8,298	8,139	**8,207**	7,985
Clearing and settlement accounts	**3,261**	2,654	**3,261**	2,642
Salaries and welfare payable (Note 32)	**3,290**	2,980	**3,154**	2,906
Salary risk allowances (Note 32(e))	**2,958**	3,256	**2,958**	3,256
Deferred interest income on discounted bills	**1,717**	1,091	**1,712**	1,091
Business tax and surcharges payable	**1,406**	1,140	**1,395**	1,133
Cheques and remittances returned	**171**	213	**171**	178
Payment and collection account	**494**	492	**493**	489
Insurance liabilities	**1,318**	1,312	**–**	–
Continuing involvement liability	**409**	409	**409**	409
Securitisation principal and interest	**371**	549	**371**	549
Debt securities acquisition payable	**27,512**	1,026	**27,067**	841
Others	**5,180**	3,491	**3,092**	2,784
	56,385	26,752	**52,290**	24,263

32 STAFF WELFARE SCHEME

(a) Retirement benefits

(i) Defined contribution schemes

In accordance with the regulations in the PRC, the Group participates in statutory retirement schemes organised by the municipal and provincial governments for its employees. The Group's contributions to the schemes are determined by local governments and vary at a range of 8% to 35% (2008: 8% to 35%) of the staff salaries.

In addition to the above statutory retirement schemes, the Group has established a supplementary defined contribution plan for its employees. The Group's annual contributions to this plan are determined based on 8.33% of the staff salaries since 1 January 2004. The Group's total contributions during the year are disclosed in Note 7.

For its employees outside Mainland China, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practise and regulations.

(Expressed in millions of Renminbi unless otherwise stated)

32 STAFF WELFARE SCHEME *(continued)*

(a) Retirement benefits *(continued)*

(ii) Defined benefit schemes

The Group operates a retirement benefit scheme and a pension scheme (collectively known as "Defined benefit scheme") for the staff of a subsidiary of the Bank. The contributions of the Defined benefit scheme are determined based on periodic valuations by qualified actuaries of the assets and liabilities of the Defined benefit scheme. The Defined benefit scheme provides benefits based on members' final salary.

The latest actuarial valuation of the Defined befit scheme was performed in accordance with IAS 19 issued by the IASB as at 31 December 2009 by professional actuarial firm Watson Wyatt Hong Kong Limited. The present values of the defined benefit obligation and current service cost of the Defined benefit scheme are calculated based on the projected unit credit method.

The amounts recognised in the balance sheet as at 31 December 2009 are analysed as follows:

	2009	2008
Fair value of Defined benefit scheme assets	**468**	406
Present value of the funded defined benefit obligation	**(335)**	(411)
Unrecognised actuarial losses	**42**	193
Net asset recognised in the balance sheet	**175**	188

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the Defined benefit scheme is expected to pay in 2010.

The amounts recognised in the income statement are as follows:

	2009	2008
Current service cost	**(19)**	(4)
Interest cost	**(4)**	(3)
Expected return on Defined benefit scheme assets	**23**	9
Net actuarial losses	**(13)**	–
Net (loss)/income for the year included in retirement benefit costs	**(13)**	2

The actual gains on Defined benefit scheme assets for the year ended 31 December 2009 was RMB77 million (2008: actual losses RMB42 million).

(Expressed in millions of Renminbi unless otherwise stated)

32 STAFF WELFARE SCHEME *(continued)*

(a) Retirement benefits *(continued)*

(ii) Defined benefit schemes (continued)

The movements in the defined benefit obligation during the year are as follows:

	2009	2008
Present value of obligation at 1 January	**411**	366
Current service cost	**19**	4
Interest cost	**4**	3
Actual benefits paid	**(15)**	(3)
Actuarial (losses)/gains	**(84)**	41
Actual obligation at 31 December	**335**	411

The movements in the fair value of the Defined benefit scheme assets during the year are as follows:

	2009	2008
Fair value of Defined benefit scheme assets at 1 January	**406**	452
Expected return on Defined benefit scheme assets	**23**	9
Actual benefits paid	**(15)**	(3)
Actuarial gains/(losses)	**54**	(52)
Fair value of Defined benefit scheme assets at 31 December	**468**	406

The major categories of the Defined benefit scheme assets are as follows:

	2009		2008	
		%		%
Equities	**241**	**51.5**	166	40.9
Bonds	**77**	**16.4**	80	19.7
Cash	**150**	**32.1**	160	39.4
Total	**468**	**100**	406	100

No deposit with the Bank was included in the amount of Defined benefit scheme assets (2008: RMB150 million).

(Expressed in millions of Renminbi unless otherwise stated)

32 STAFF WELFARE SCHEME *(continued)*

(a) Retirement benefits *(continued)*

(ii) Defined benefit schemes (continued)

The principal actuarial assumptions adopted in the valuation are as follows:

	2009	2008
	%	%
Discount rate		
– Retirement benefit scheme	**2.6**	1.1
– Pension scheme	**1.6**	1.1
Long-term average return on Defined benefit scheme assets		
– Retirement benefit scheme	**6.0**	6.0
– Pension scheme	**1.0**	1.0
Long-term average rate of salary increase for the defined benefit scheme of the Scheme	**5.0**	5.0
Pension increase rate for the defined benefit pension scheme	**2.5**	2.5

There was no curtailment or settlement impact for the year ended 31 December 2009 (2008: Nil).

(iii) Supplementary retirement scheme

Supplementary retirement scheme was an annuity contract purchased from independent life insurance company by the Bank to provide supplementary defined contribution retirement benefits to its full time employees. It was a voluntary payment and the Bank has no further obligations to make future contributions. In 2009, the Bank purchased an annuity contract of RMB1,218 million (2008: Nil).

The Group has no other material obligations for the payment of other post retirement benefits other than the contributions described above.

(b) Staff quarters

The Bank purchased quarters by using the public welfare fund, and leases to the existing staff at market rates on short term basis. Rental income is recognised in the consolidated income statement as other net income.

(c) Staff salary and incentive scheme

The performance bonus was accrued at a fixed percentage based on the growth in net profit for the year as approved by the board of directors.

(Expressed in millions of Renminbi unless otherwise stated)

32 STAFF WELFARE SCHEME *(continued)*

(d) Cash settled share-based transactions

The Bank has H-share Appreciation Rights Scheme phase I, phase II and phase III for the Senior Management ("the Scheme") which was adopted on 30 October 2007, 7 November 2008 and 16 November 2009 respectively whereby the directors of the Bank are authorized, at their discretion, to invite the Senior Management of the Bank to take up options at nil consideration to subscribe for shares of the Group. The options vest after 2 years from the date of grant and are then exercisable within a period of 8 years. Each of the share appreciation right is linked to one H-share.

(i) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by delivery of cash:

	Number of options (in million)	**Vesting conditions**	**Contractual life of options**
Options granted on 30 October 2007	1.677	2 years from the date of grant	10 years
Options granted on 7 November 2008	1.716	2 years from the date of grant	10 years
Options granted on 16 November 2009	1.590	2 years from the date of grant	10 years

The Bank implemented the Profit Appropriation Scheme for 2008, pursuant to which a bonus issue of 3 bonus shares for every 10 shares held. Accordingly, the number of options granted under the Scheme in 2007's phase I and in 2008's Phase II were adjusted from 1.29 million to 1.68 million and 1.32 million to 1.72 million respectively.

(ii) The number and weighted average exercise prices of share options are as follows:

	2009		2008	
	Weighted average exercise price (HK$)	**Number of options (in million)**	Weighted average exercise price (HK$)	Number of options (in million)
Outstanding as at the beginning of the year	**19.70**	**3.39**	38.98	1.29
Granted during the year	**21.95**	**1.59**	12.76	1.32
Outstanding at the end of the year	**20.42**	**4.98**	25.72	2.61
Exercisable at the end of the year	**29.90**	**0.42**	–	–

(Expressed in millions of Renminbi unless otherwise stated)

32 STAFF WELFARE SCHEME *(continued)*

(d) Cash settled share-based transactions *(continued)*

(ii) The number and weighted average exercise prices of share options are as follows: (continued)

The options outstanding at 31 December 2009 had an weighted average exercise price of HK$20.42 (2008: HK$25.72) and a weighted average remaining contractual life of 8.83 years (2008: 9.34 years).

Pursuant to the requirements set out in the Scheme, if any dividends were distributed, capital reserve was converted into shares, share split or dilution, an adjustment to the exercise price is applied. In view of a cash dividend of HK$0.11 per share and stock dividend of three shares per ten shares made in respect of 2008, the exercise price granted to Senior Management under the Scheme in 2007's phase I and in 2008's phase II were adjusted from HK$38.98 to HK$29.90 and from HK$12.76 to HK$9.73 respectively.

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

	2009			2008	
	Phase I	**Phase II**	**Phase III**	Phase I	Phase II
Fair value at measurement date (in RMB)	**8.31**	**13.98**	**10.90**	7.44	9.76
Share price (in HK$)	**20.35**	**20.35**	**20.35**	13.90	13.90
Exercise price (in HK$)	**29.90**	**9.73**	**21.95**	38.98	12.76
Expected volatility	**47%**	**47%**	**47%**	74%	74%
Option life (year)	**7.83**	**8.83**	**9.88**	8.83	9.83
Expected dividends rate	**0.41%**	**0.41%**	**0.41%**	1%	1%
Risk-free interest rate	**2.14%**	**2.14%**	**2.14%**	2.14%	2.14%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(Expressed in millions of Renminbi unless otherwise stated)

32 STAFF WELFARE SCHEME *(continued)*

(d) Cash settled share-based transactions *(continued)*

(iv) The number of share appreciation rights granted to members of senior management in 2009:

	2009				
	Phase I No. of shares granted (in thousand)	**Phase II No. of shares granted (in thousand)**	**Phase III No. of shares granted (in thousand)**	**No. of shares exercised (in thousand)**	**Total no. of shares (in thousand)**
Ma Wei Hua	**390**	**390**	**300**	**–**	**1,080**
Zhang Guang Hua	**195**	**195**	**150**	**–**	**540**
Li Hao	**195**	**195**	**150**	**–**	**540**
Tang Zhi Hong	**195**	**195**	**150**	**–**	**540**
Yin Feng Lan	**195**	**195**	**150**	**–**	**540**
Ding Wei	**156**	**195**	**150**	**–**	**501**
Tang Xiao Qing	**–**	**–**	**150**	**–**	**150**
Wang Qing Bin	**–**	**–**	**120**	**–**	**120**
Xu Lian Feng	**117**	**117**	**90**	**–**	**324**
Fan Peng	**117**	**117**	**90**	**–**	**324**
Lan Qi	**117**	**117**	**90**	**–**	**324**
Total	**1,677**	**1,716**	**1,590**	**–**	**4,983**

	2008			
	Phase I No. of shares granted (in thousand)	Phase II No. of shares granted (in thousand)	No. of shares exercised (in thousand)	Total no of shares (in thousand)
Ma Wei Hua	390	390	–	780
Zhang Guang Hua	195	195	–	390
Li Hao	195	195	–	390
Tang Zhi Hong	195	195	–	390
Yin Feng Lan	195	195	–	390
Ding Wei	156	195	–	351
Xu Lian Feng	117	117	–	234
Fan Peng	117	117	–	234
Lan Qi	117	117	–	234
Total	1,677	1,716	–	3,393

Note: In 2009, no members of senior management had exercised any share appreciation rights (2008: Nil).

(Expressed in millions of Renminbi unless otherwise stated)

32 STAFF WELFARE SCHEME *(continued)*

(e) Salary risk allowances

According to CBRC Yin Jian Ban Fa【2009】No.15, the Bank has established salary risk allowances. Salary risk allowances are specific funds withheld from the employees' (excluding senior management of the Bank) annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances. As at 31 December 2009, these allowances amounted to RMB2.958 billion (2008: RMB3.256 billion) and were included in "Other liabilities".

33 SHARE CAPITAL

	Registered and issued share capital	
	No. of shares (in million)	**Amount**
At 1 January 2009	**14,707**	**14,707**
Stock dividends	**4,412**	**4,412**
Conversion of convertible bonds	**–**	**–**
At 31 December 2009	**19,119**	**19,119**
At 1 January 2008	14,705	14,705
Conversion of convertible bonds	2	2
At 31 December 2008	14,707	14,707

By type of share:

	No. of shares (in million)	
	2009	2008
Listed shares		
– A-Shares – with trading moratorium	**–**	4,799
– A-Shares – without trading moratorium	**15,659**	7,246
– H-Shares	**3,460**	2,662
	19,119	14,707

33 SHARE CAPITAL *(continued)*

On 24 February 2006, bonus shares were issued at a ratio of 0.8589 bonus shares for every 10 A-Shares of the Bank by capitalisation of an amount of RMB971 million from the capital reserve. In addition, the Bank issued 938 million A-Shares upon conversion of the convertible bonds of RMB5,169 million during the year ended 31 December 2006, resulting in the increase in share capital and capital reserve of RMB938 million and RMB4,327 million respectively.

On 22 September 2006, a total of 2,200 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$8.55 per share as part of the Initial Public Offering.

On 27 September 2006, a total of 220 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$8.55 per share as a result of the exercise of the over-allotment option.

As a result of the Initial Public Offering and the exercise of the over-allotment option, a total of 242 million A-Shares, representing 10% of the number of H-Shares issued by the Bank were converted into H-Shares of equivalent value and transferred to Social Security Fund from state-owned shareholders of the Bank at no consideration. These H-Shares were eligible for trading since 5 October 2006.

As a result of the above events in 2006, the Bank's registered and issued capital increased from RMB10,374 million to RMB14,703 million.

The Bank issued 2 million A-Shares upon conversion of the convertible bonds of RMB10 million during the year ended 31 December 2007, resulting in the increase in share capital and capital reserve of RMB2 million and RMB9 million respectively. The Bank's registered and issued capital increased from RMB14,703 million to RMB14,705 million.

The Bank issued 2 million shares upon conversion of the convertible bonds of RMB13 million during the year ended 31 December 2008, resulting in the increase in share capital and capital reserve of RMB2 million and RMB11 million respectively. As a result, the Bank's registered and issued capital increased from RMB14,705 million to RMB14,707 million.

The Bank issued 0.144 million shares upon conversion of the convertible bonds of RMB0.663 million during the year ended 31 December 2009, resulting in the increase in share capital and capital reserve of RMB0.144 million and RMB0.519 million respectively. On 3 July 2009, the Bank transferred its retained profits totalling RMB4,412 million to its share capital, thus increasing its registered capital to RMB19.119 billion, for which KPMG Huazhen issued a capital verification report (KPMG-D (2009) CR No.0001) on 9 July 2009.

All H-Shares are ordinary shares and rank pari passu with the A-Shares.

34 CAPITAL RESERVE

The capital reserve primarily represents share premium and equity component of the convertible bonds issued by the Bank. The capital reserve can be used to issue shares with the shareholders' approval.

(Expressed in millions of Renminbi unless otherwise stated)

35 SURPLUS RESERVE

Surplus reserve includes statutory surplus reserve and statutory public welfare fund.

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises (2006) and other relevant regulations issued by the MOF and is provided at 10% of the audited profit after tax, until the reserve balance is equal to 50% of the Bank's registered share capital. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

The purpose of statutory public welfare fund is to provide staff facilities and other staff benefits. It is not distributable other than in liquidation.

36 INVESTMENT REVALUATION RESERVE

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.

37 REGULATORY GENERAL RESERVE

Pursuant to notices, the "Measures for Administering the Withdrawal of Reserves for Non performing Debts by Financial Enterprises" (Cai Jin【2005】No. 49) issued by the MOF on 17 May 2005 and the "Application Guidance of Financing Measures for Financial Institutions" (Cai Jin【2007】No. 23) issued by the MOF on 30 March 2007, banks and certain non-bank financial institutions in Mainland China are required to set aside a general reserve to cover potential losses against their assets. The provision ratio for the general reserve is determined by financial institutions, with reference to the confronted risk factors. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets. The general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

38 EXCHANGE RESERVE

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China.

39 PROFIT APPROPRIATIONS

(a) Dividends declared and paid

	2009	2008
Dividends in respect of the previous year, approved, declared and paid during the year of RMB1 per every 10 shares, 3 shares per every 10 shares (2008: RMB2.8 per every 10 shares)	**5,883**	4,117

(Expressed in millions of Renminbi unless otherwise stated)

39 PROFIT APPROPRIATIONS *(continued)*

(b) Proposed profit appropriations

	2009	2008
Statutory surplus reserve	**1,765**	2,041
Dividends		
– cash dividend: RMB2.1 (2008: RMB1) per every 10 shares	**4,531**	1,471
– stock dividend: Nil (2008: 3 shares) per every 10 shares	**–**	4,412
Total	**6,296**	7,924

Notes:

(i) 2009 profit appropriation is proposed in accordance with the resolution passed at the meeting of the board of directors held on 13 April 2010 and will be submitted to the annual general meeting for approval.

(ii) 2008 profit was appropriated in accordance with the resolution passed at the meeting of board of directors held on 24 April 2009 and as approved in the annual general meeting held on 19 June 2009.

40 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Analysis of the balances of cash and cash equivalents

	2009	2008
Cash	**7,613**	6,928
With original maturity within 3 months:		
– balance with banks and other financial institutions	**29,234**	23,823
– balances with central bank	**36,417**	47,681
– placements with banks and other financial institutions	**86,677**	107,790
– debt security investments	**23,690**	449
	183,631	186,671

(b) Significant non-cash transactions

Apart from the non-cash transactions relating to the conversion of convertible bonds to share capital during the years ended 31 December 2009 and 2008, the details of which are included in Note 30(b), there were no other significant non-cash transactions.

41 OPERATING SEGMENTS

The Group's principal activities are commercial lending and deposits taking. The funding of existing retail and corporate loans are mainly from customer deposits.

The group manages its businesses by divisions, which are organised by a mixture of both business lines and geography.

On first-time adoption of IFRS 8, Operating segments, to be consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments:

– Corporate banking

The provision of financial services to corporations and institutions includes lending and deposit taking activities, project and structured finance products, syndicated loans, cash management, investment advice and other investment services.

– Retail banking

The provision of financial services to retail customers includes lending and deposit taking activities, credit card facilities and investment serves.

– Treasury business

It covers interbank and capital market activities and proprietary trading.

Others include insurance underwriting, insurance agency, securities and future brokerage services, investment properties, interest in associates and jointly controlled entities. None of these segments meets any of the quantitative thresholds so far for determining reportable segments.

For the purposes of segmental analysis, external net interest income/expense represents the net interest income earned or expenses incurred on banking business originated by these segments. Internal net interest income/expense represents the allocation of revenue to reflect the benefits of funding sources allocated to the reportable segments by way of internal funds transfer pricing mechanism. The internal funds transfer pricing mechanism has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on the direct cost incurred by the respective reportable segments and apportionment of management overheads. Inter-segment interest income and expenses recognised through the internal funds transfer pricing mechanism are eliminated in the consolidated results of the operations and is shown in the reconciliation. The Bank's capital attribution methodologies involve a number of assumptions and estimates that are revised periodically by management. Such methodologies have been revised by management in 2008 to reflect the latest development in the market.

(Expressed in millions of Renminbi unless otherwise stated)

41 OPERATING SEGMENTS *(continued)*

(a) Segment results, assets and liabilities

	The Group									
	Corporate banking		Retail banking		Treasury business		Others		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
External net interest income	**21,562**	24,249	**6,971**	6,528	**11,801**	16,104	**30**	4	**40,364**	46,885
Internal net interest (expense)/ income	**(121)**	752	**5,244**	5,862	**(5,141)**	(6,616)	**18**	2	**–**	–
Net interest income	**21,441**	25,001	**12,215**	12,390	**6,660**	9,488	**48**	6	**40,364**	46,885
Net fee and commission income	**2,831**	2,747	**4,780**	4,761	**(5)**	(1)	**206**	44	**7,812**	7,551
Other net income/(expense)	**975**	732	**528**	241	**1,369**	(203)	**186**	77	**3,058**	847
Insurance operating income	**–**	–	**–**	–	**–**	–	**359**	98	**359**	98
Operating income	**25,247**	28,480	**17,523**	17,392	**8,024**	9,284	**799**	225	**51,593**	55,381
Operating expenses										
– depreciation	**(594)**	(604)	**(1,316)**	(1,279)	**(68)**	(76)	**(171)**	(25)	**(2,149)**	(1,984)
– others	**(10,388)**	(9,696)	**(12,519)**	(10,801)	**(1,030)**	(1,064)	**(140)**	(32)	**(24,077)**	(21,593)
Charge for insurance claims	**–**	–	**–**	–	**–**	–	**(355)**	(106)	**(355)**	(106)
	(10,982)	(10,300)	**(13,835)**	(12,080)	**(1,098)**	(1,140)	**(666)**	(163)	**(26,581)**	(23,683)

(Expressed in millions of Renminbi unless otherwise stated)

41 OPERATING SEGMENTS *(continued)*

(a) Segment results, assets and liabilities *(continued)*

	The Group									
	Corporate banking		Retail banking		Treasury business		Others		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Reportable segment profit before impairment losses	**14,265**	18,180	**3,688**	5,312	**6,926**	8,144	**133**	62	**25,012**	31,698
Impairment losses	**(1,557)**	(2,847)	**(1,492)**	(1,059)	**81**	(561)	**(1)**	(687)	**(2,969)**	(5,154)
Share of profit of associates and jointly controlled entities	**–**	–	**–**	–	**–**	–	**69**	11	**69**	11
Reportable segment profit before tax	**12,708**	15,333	**2,196**	4,253	**7,007**	7,583	**201**	(614)	**22,112**	26,555
Capital expenditure (note)	**1,055**	3,045	**2,351**	6,469	**119**	380	**43**	4	**3,568**	9,898

	The Group									
	Corporate banking		Retail banking		Treasury business		Others		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Reportable segment assets	**783,961**	636,676	**394,862**	236,756	**865,581**	677,360	**6,956**	4,831	**2,051,360**	1,555,623
Reportable segment liabilities	**949,317**	735,249	**673,355**	532,441	**336,875**	212,849	**4,313**	1,718	**1,963,860**	1,482,257
Interest in associates and jointly controlled entities	**–**	–	**–**	–	**–**	–	**466**	402	**466**	402

Note: Capital expenditure represents total amount incurred for acquiring assets that are expected to be used for some period.

(Expressed in millions of Renminbi unless otherwise stated)

41 OPERATING SEGMENTS *(continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets, liabilities and other material items

	The Group	
	2009	2008
Revenues		
Total revenues for reportable segments	**51,593**	55,381
Other revenues	**255**	263
Consolidated revenue	**51,848**	55,644
Profit		
Total profit or loss for reportable segments	**22,112**	26,555
Other profit	**272**	204
Consolidated profit before income tax	**22,384**	26,759
Other material items		
Total capital expenditure for reportable segments	**3,568**	9,898
Goodwill	**–**	10,177
Intangible assets	**–**	1,166
Consolidated total capital expenditure	**3,568**	21,241

	The Group	
	2009	2008
Assets		
Total assets for reportable segments	**2,051,360**	1,555,623
Goodwill	**9,598**	9,598
Intangible assets	**1,110**	1,155
Deferred tax assets	**2,786**	2,521
Other unallocated assets	**3,087**	2,900
Consolidated total assets	**2,067,941**	1,571,797
Liabilities		
Total liabilities for reportable segments	**1,963,860**	1,482,257
Current taxation	**1,159**	2,956
Deferred tax liabilities	**941**	848
Other unallocated liabilities	**9,198**	5,955
Consolidated total liabilities	**1,975,158**	1,492,016

(Expressed in millions of Renminbi unless otherwise stated)

41 OPERATING SEGMENTS *(continued)*

(c) Geographical segments

The Group operates principally in the PRC with branches located in major provinces, autonomous regions and municipalities directly under the central government. The Group also has branches operation in Hong Kong, New York; subsidiaries operating in Hong Kong and Shanghai and representative offices in London and the United States of America.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

– "Eastern China" region refers to the following areas serviced by the subsidiary and branches of the Group: Shanghai Municipality, Jiangsu Province, Zhejiang Province, Shandong Province, Fujian Province and Anhui Province;

– "Southern and Central China" region refers to the Head Office and the following areas serviced by the associate and branches of the Group: Guangdong Province, Hunan Province, Jiangxi Province, Hubei Province, Henan Province and Guangxi Autonomous Region;

– "Western China" region refers to the following areas serviced by the branches of the Group: Sichuan Province, Chongqing Municipality, Yunnan Province, Shaanxi Province, Gansu Province and Xinjiang Autonomous Region;

– "Northern China" region refers to the areas serviced by the following branches of the Group: Beijing Municipality, Tianjin Municipality, Liaoning Province, Jilin Province, Heilongjiang Province, Shanxi Province and Inner Mongolia Autonomous Region; and

– "Outside Mainland China" refers to operations of Hong Kong branch, New York branch and the overseas operations of subsidiaries.

	The Group			
	Revenues		Non-current assets	
Geographical information	**2009**	2008	**2009**	2008
Eastern China	**19,404**	20,257	**4,500**	3,555
Southern and Central China	**19,617**	23,070	**14,938**	14,604
Western China	**4,315**	4,907	**1,400**	1,258
Northern China	**5,797**	7,182	**1,326**	1,382
Outside Mainland China	**2,715**	228	**6,225**	6,644
Total	**51,848**	55,644	**28,389**	27,443

(Expressed in millions of Renminbi unless otherwise stated)

42 ASSETS PLEDGED AS SECURITY

The following assets have been pledged as collateral for liabilities under repurchase arrangements:

	Group		Bank	
	2009	2008	**2009**	2008
Secured liabilities	**34,627**	12,282	**34,597**	11,982
Assets pledged				
– Available-for-sale financial assets	**19,391**	–	**19,391**	–
– Held-to-maturity debt securities	**9,131**	4,840	**9,131**	4,840
– Other assets	**6,105**	7,439	**6,075**	7,142
	34,627	12,279	**34,597**	11,982

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

43 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

(Expressed in millions of Renminbi unless otherwise stated)

43 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(a) Credit commitments *(continued)*

	Group		Bank	
	2009	2008	**2009**	2008
Contractual amount				
Irrevocable guarantees	**86,736**	69,408	**86,155**	69,048
Irrevocable letters of credit	**31,051**	17,721	**30,895**	17,615
Bills of acceptances	**319,758**	197,582	**319,600**	197,508
Irrevocable loan commitments				
– with an original maturity of under one year	**5,461**	929	**3,175**	701
– with an original maturity of one year or over	**32,643**	13,139	**27,427**	9,448
Credit card commitments	**110,880**	92,877	**104,329**	86,084
Shipping guarantees	**3**	3	**1**	2
	586,532	391,659	**571,582**	380,406

Irrevocable loan commitments only include credit limits granted to offshore customers, and onshore and offshore syndicated loans. The Directors are of the opinion that the Group will not assume any risks on the unused credit limits for other loan customers as such limits are revocable and subject to the loan approval process. As a result, such balances are not included in the above contingent liabilities and commitments.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB793,575 million at 31 December 2009 (2008: RMB605,738 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective loan agreements.

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assesses and makes allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	Group		Bank	
	2009	2008	**2009**	2008
Credit risk weighted amounts of contingent liabilities and commitments				
Contingent liabilities and commitments	**151,828**	142,914	**135,917**	141,368

(Expressed in millions of Renminbi unless otherwise stated)

43 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(a) Credit commitments *(continued)*

The credit risk weighted amount refers To the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

There are no relevant standards prescribed by IFRSs in calculating the above credit risk weighted amounts.

The credit risk weighted amounts stated above have taken into account the effects of bilateral netting arrangements.

(b) Capital commitments

Authorised capital commitments not provided for were as follows:

	Group		Bank	
	2009	2008	**2009**	2008
For purchase of fixed assets:				
– Contracted for	**1,511**	1,848	**1,506**	1,835
– Authorised but not contracted for	**184**	–	**184**	–
	1,695	1,848	**1,690**	1,835

(c) Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	Group		Bank	
	2009	2008	**2009**	2008
Within 1 year	**1,427**	1,145	**1,403**	1,116
After 1 year but within 5 years	**4,256**	3,417	**4,211**	3,371
After 5 years	**1,643**	1,100	**1,643**	1,093
	7,326	5,662	**7,257**	5,580

The Group and the Bank lease certain properties under operating leases. The leases typically run for an initial period of 1 to 5 years, and may include an option to renew the lease when all terms are renegotiated. None of the lease include contingent rental.

(Expressed in millions of Renminbi unless otherwise stated)

43 CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

(d) Outstanding litigations

At 31 December 2009, the Group was a defendant in certain pending litigations with gross claims of RMB349 million (2008: RMB381 million) arising from its banking activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. The Board of Directors consider that no material losses would be incurred by the Group as a result of these pending litigations and therefore no provision has been made in the financial statements.

(e) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the balance sheet date:

	Group and Bank	
	2009	2008
Redemption obligations	**9,200**	6,461

The Group expects that the amount of redemption before the maturity date of these government bonds through the Group will not be material.

44 TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

The Group provides entrusted lending business services to corporations and individuals. All entrusted loans are made under the instruction or at the direction of these entities or individuals and are funded by entrusted funds from them.

For entrusted assets and liabilities business, the Group generally does not take on credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised in the balance sheet. Surplus funding is accounted for as deposits from customers. Income received and receivable for providing these services is recognised in the income statement as fee income.

(Expressed in millions of Renminbi unless otherwise stated)

44 TRANSACTIONS ON BEHALF OF CUSTOMERS *(continued)*

(a) Entrusted lending business *(continued)*

At the balance sheet date, the entrusted assets and liabilities were as follows:

	Group and Bank	
	2009	2008
Entrusted loans	**70,638**	75,214
Entrusted funds	**70,638**	75,224

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes, entrusted loans and IPO shares. The credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers who invest in these products. The Group only earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The income is recognised in the income statement as commission income.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the balance sheet. The funds obtained from wealth management services that have not yet been invested are recorded under deposits from customers.

At the balance sheet date, funds received from customers under wealth management services were as follows:

	Group and Bank	
	2009	2008
Funds received from customers under wealth management services	**119,973**	60,718

45 RISK MANAGEMENT

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

The Group has designed its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk Management and Internal Control Committee is set up and is appointed by the Board to be responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions.

With respect to daily operations, the Risk Management Department, as directed by the Risk Management and Internal Control Committee, coordinates and monitors the work of other risk management functions, including the Corporate Banking Department and the Legal and Compliance Department.

With respect to the credit risk management of corporate and institutional business, the Group enhanced post-lending monitoring, and refined the credit policy baseline for credit approval. Fine-tuning credit acceptance and exit policies, and optimizing its economic capital management and credit risk limit management have also contributed to the improvement in asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, where appropriate, the Group requests customers to provide collateral and guarantees. It also sets guidelines as to the use and suitability of specific types of collateral. Collateral structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

In respect of the loan portfolio, the Group adopts a risk based loan classification methodology. Currently, the Group categorises its loans on a five-grade loan classification basis. The loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses are classified as impaired loans and advances. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region.

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Analyses of loans and advances by industry, customer type and nature are stated in Notes 18.

The Group's credit risk management policy for financial derivatives is the same as that for other transactions. In order to mitigate the credit risk arising from the financial derivatives, the Group has signed netting agreements with certain counterparties.

(i) Maximum exposure

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held, irrevocable loan commitments or other credit enhancements is represented by the carrying amount of each financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	Group		**Bank**	
	2009	2008	**2009**	2008
Cash and balances with banks and other financial institutions	**56,544**	37,016	**54,238**	34,027
Balances with central bank	**208,554**	174,673	**207,979**	174,640
Placements with banks and other financial institutions	**221,194**	156,378	**199,344**	123,492
Loans and advances to customers	**1,161,817**	852,754	**1,105,816**	812,106
Investments	**377,072**	310,446	**352,258**	332,213
Interest in associates and jointly controlled entities	**466**	402	**191**	191
Other assets	**11,341**	10,482	**8,408**	9,149
Financial guarantees and other credit related contingent liabilities	**437,548**	284,714	**436,651**	284,173
Loan commitments and other credit related commitments	**942,559**	712,683	**926,238**	700,796
	3,417,095	2,539,548	**3,291,123**	2,470,787

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

(ii) The credit quality of loans and advances to customers can be analysed as follows:

	Group		Bank	
	2009	2008	**2009**	2008
Impaired loans and advances to customers				
For which impairment losses are individually assessed				
Gross amount	**7,967**	8,190	**7,746**	8,144
Less: impairment allowances	**(5,969)**	(6,727)	**(5,873)**	(6,692)
Carrying amount	**1,998**	1,463	**1,873**	1,452
For which impairment losses are collectively assessed				
Gross amount	**1,631**	1,382	**1,615**	1,355
Less: impairment allowances	**(1,398)**	(1,086)	**(1,395)**	(1,083)
Carrying amount	**233**	296	**220**	272
Overdue but not impaired				
Within which				
– Less than 3 months	**3,397**	5,743	**2,440**	4,628
– 6 months or less but over 3 months	**163**	253	**152**	248
– 1 year or less but over 6 months	**2**	1	**–**	–
– Over 1 year	**3**	1	**–**	–
Gross amount	**3,565**	5,998	**2,592**	4,876
Less: impairment allowances – collectively assessed	**(293)**	(411)	**(290)**	(406)
Carrying amount	**3,272**	5,587	**2,302**	4,470
Neither past due nor impaired				
Normal	**1,160,586**	848,732	**1,105,928**	809,476
Special mention	**11,970**	9,964	**11,642**	9,697
Substandard	**83**	96	**–**	–
Doubtful	**20**	–	**–**	–
Gross amount	**1,172,659**	858,792	**1,117,570**	819,173
Less: impairment allowances – collectively assessed	**(16,345)**	(13,384)	**(16,149)**	(13,261)
Carrying amount	**1,156,314**	845,408	**1,101,421**	805,912
Total carrying amount	**1,161,817**	852,754	**1,105,816**	812,106

Loans and advances that would be past due or impaired had the terms been renegotiated amounted to RMB1,569 million as at 31 December 2009 (2008: RMB1,426 million).

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

(iii) Credit quality of debt investments

At the balance sheet date, the credit quality of debt investments analysed by designation of external credit assessment institution, Standard & Poors, is as follows:

	Group		Bank	
	2009	2008	**2009**	2008
Individually assessed and impaired gross amount	**412**	654	**250**	540
Allowance for impairment carrying amount	**(246)**	(277)	**(144)**	(176)
Sub-total	**166**	377	**106**	364
Neither overdue nor impaired				
AAA	**9,630**	2,192	**4,266**	1,750
AA- to AA+	**11,877**	7,047	**4,666**	3,909
A- to A+ (note)	**275,605**	226,907	**267,151**	223,476
Lower than A–	**4,096**	2,531	**1,262**	968
	301,208	238,677	**277,345**	230,103
Unrated	**73,478**	68,020	**73,279**	67,101
Total	**374,852**	307,074	**350,730**	297,568

Note: Included bonds issued by the PRC Government, PBOC and PRC Policy Banks held by the Group amounted to RMB155,107 million (2008: RMB153,784 million).

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

(iv) Collateral and other credit enhancements

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	Group		Bank	
	2009	2008	**2009**	2008
Estimate of the fair value of collateral and other credit enhancements held against – Loans and advances to customers	**7,387**	9,285	**5,124**	6,923

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and market risk comprises currency risk, interest rate risk and other price risk. The Group is exposed to market risk primarily through its proprietary trading activities. The Group considers that any market risk arising from its proprietary trading book is not material.

The Asset and Liability Management Committee ("ALCO") of the Group is responsible for formulating market risk management policies and procedures, supervising the implementation of the policies and procedures and making decision on significant market risk management issues. The Planning and Finance Department is responsible for implementing the market risk management policies and procedures.

The historical simulation model for the Value-at-risk ("VaR") analysis is used by the Group to measure and monitor the market risk of its trading portfolio. Gap analysis and scenario analysis are used by the Group to measure and monitor the market risk of its non-trading business. Gap analysis is a technique to project future cash flows in order to quantify the differences, for a range of future dates, between assets and liabilities.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Effective from October 2007, the Group's Planning and Finance Department calculates VaR using the historical movement in market rates and prices, at a 99% confidence level, the observation period is 250 trading days and the holding period is 10 days.

The Group has separated trading accounts and bank accounts in the system by distinguishing the trading purposes and strategies of various treasury trading businesses on and off the balance sheet, and has formulated corresponding management policies against market risk for trading accounts and bank accounts.

45 RISK MANAGEMENT *(continued)*

(b) Market risk *(continued)*

In 2009, market risk were under control amid a more stable global financial market, the Bank maintained appropriately loose market liquidity, and the credit spread volatility had largely narrowed to a normal level. With the recovery of overseas credit markets, the prices of credit bonds denominated in foreign currencies rose steadily. At the same time, the domestic bonds market rose sharply within a short period of time at the beginning of the year as the PBOC cut its interest rates several times during the second half of last year; however, with the progressive improvement of macro-economic statistics and the increased market expectation of economic recovery and long-term inflation, the market return rates continued to rise and the prices of bonds decreased subsequently. The investment portfolio of the Group mainly consists of debt securities issued by the PRC Government, PRC policy banks and large PRC-based corporations and commercial banks with high credit ratings. The return on investment for 2009 remained stable, with positive market risk indicators being recorded.

(c) Currency risk

The Group is exposed to currency risks primarily arising from the mismatch of its holdings of foreign currency denominated financial assets and liabilities.

The Group's functional currency is RMB. Foreign currency transactions are mainly in US dollar and HK dollar. The Group's assets and liabilities are mainly denominated in RMB, with the rest being mainly in US dollar and HK dollar.

The Group also reviews and analyses its exposures to currency risks regularly. To mitigate currency risks, the Group adjust its foreign currency positions according to the movements in the foreign exchange rate.

In 2009, the median price of the US dollar against RMB remained largely stable; with the spot rate of RMB mostly fluctuated within a narrow band of around 6.83. The Group used various measures including price leverage to adjust foreign-currencies denominated asset-liability structures as well as to manage foreign exchange exposure and exchange losses.

The Group monitors daily foreign currency transactions and positions closely. The following tables show the Group's assets and liabilities by major currencies as at each balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows:

	Group				
	2009				
		Equivalent in RMB million			
	RMB	US dollar	HKD	Others	Total
Assets					
Cash and balances with central bank	207,823	3,282	4,690	372	216,167
Amounts due from banks and other financial institutions	210,335	22,972	22,377	14,441	270,125
Loans and advances to customers	1,048,445	58,447	52,367	2,558	1,161,817
Investments	329,053	27,727	12,742	7,550	377,072
Other assets	34,134	583	7,715	328	42,760
	1,829,790	113,011	99,891	25,249	2,067,941
Liabilities					
Amounts due to banks and other financial institutions	247,254	15,892	1,560	413	265,119
Deposits from customers	1,423,328	72,419	83,493	28,906	1,608,146
Trading liabilities	–	–	30	–	30
Financial liabilities designated as at fair value through profit or loss	–	–	1,173	–	1,173
Derivative financial instruments	285	454	631	104	1,474
Certificates of deposit issued	–	2,200	2,262	–	4,462
Other debts issued	4,998	–	–	–	4,998
Subordinated notes issued	29,950	–	1,321	–	31,271
Other liabilities	53,280	785	4,275	145	58,485
	1,759,095	91,750	94,745	29,568	1,975,158
Net on-balance sheet position	70,695	21,261	5,146	(4,319)	92,783
Off-balance sheet position:					
Credit commitments (note)	397,724	54,445	20,371	6,050	478,590
Derivatives:					
– forward purchase	64,114	71,665	11,675	8,448	155,902
– forward sales	(63,537)	(83,462)	(4,909)	(4,016)	(155,924)
– net option position	–	(108)	20	88	–

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows: *(continued)*

	Group				
	2008				
		Equivalent in RMB million			
	RMB	US dollar	HKD	Others	Total
Assets					
Cash and balances with central bank	176,925	3,507	739	430	181,601
Amounts due from banks and other financial institutions	96,210	51,747	19,133	19,376	186,466
Loans and advances to customers	784,668	27,268	40,150	668	852,754
Investments	278,110	20,703	10,222	1,411	310,446
Other assets	32,663	903	6,773	191	40,530
	1,368,576	104,128	77,017	22,076	1,571,797
Liabilities					
Amounts due to banks and other financial institutions	160,656	4,146	971	143	165,916
Deposits from customers	1,084,100	83,391	60,034	23,123	1,250,648
Trading liabilities	–	–	524	–	524
Financial liabilities designated as at fair value through profit or loss	–	–	1,828	–	1,828
Derivative financial instruments	855	199	1,244	(32)	2,266
Certificates of deposit issued	–	682	1,158	–	1,840
Convertible bonds issued	2	–	–	–	2
Other debts issued	4,996	–	–	–	4,996
Subordinated notes issued	33,440	–	–	–	33,440
Other liabilities	25,890	1,525	2,993	148	30,556
	1,309,939	89,943	68,752	23,382	1,492,016
Net on-balance sheet position	58,637	14,185	8,265	(1,306)	79,781
Off-balance sheet position:					
Credit commitments (note)	237,523	42,919	12,497	4,897	297,836
Derivatives:					
– forward purchase	38,381	45,858	5,035	5,925	95,199
– forward sales	(40,934)	(47,265)	(2,394)	(4,427)	(95,020)
– net option position	–	(22)	2	20	–

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows:

	Bank				
	2009				
		Equivalent in RMB million			
	RMB	**US dollar**	**HKD**	**Others**	**Total**
Assets					
Cash and balances with central bank	207,729	3,258	3,879	242	215,108
Amounts due from banks and other financial institutions	210,050	18,006	9,618	8,779	246,453
Loans and advances to customers	1,038,134	53,091	13,062	1,529	1,105,816
Investments	330,470	18,678	1,356	1,754	352,258
Other assets	23,084	442	32,729	27	56,282
	1,809,467	93,475	60,644	12,331	1,975,917
Liabilities					
Amounts due to banks and other financial institutions	239,607	14,286	1,473	323	255,689
Deposits from customers	1,421,729	61,813	30,307	13,092	1,526,941
Financial liabilities designated as at fair value through profit or loss	–	–	819	–	819
Derivative financial instruments	285	362	245	82	974
Certificates of deposit issued	–	1,518	1,201	–	2,719
Other debts issued	4,998	–	–	–	4,998
Subordinated notes issued	29,950	–	–	–	29,950
Other liabilities	52,408	720	237	54	53,419
	1,748,977	78,699	34,282	13,551	1,875,509
Net on-balance sheet position	60,490	14,776	26,362	(1,220)	100,408
Off-balance sheet position:					
Credit commitments (note)	397,595	53,655	6,550	5,972	463,772
Derivatives:					
– forward purchase	64,114	68,875	9,525	4,329	146,843
– forward sales	(63,537)	(77,290)	(2,870)	(3,184)	(146,881)
– net option position	–	(91)	–	91	–

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows: *(continued)*

	Bank				
	2008				
		Equivalent in RMB million			
	RMB	US dollar	HKD	Others	Total
Assets					
Cash and balances with central bank	176,886	3,475	478	280	181,119
Amounts due from banks and other financial institutions	95,577	42,861	5,071	7,531	151,040
Loans and advances to customers	781,969	24,827	5,034	276	812,106
Investments	277,669	18,730	3,332	608	300,339
Other assets	23,192	785	30,668	123	54,768
	1,355,293	90,678	44,583	8,818	1,499,372
Liabilities					
Amounts due to banks and other financial institutions	160,363	3,648	922	87	165,020
Deposits from customers	1,083,181	71,519	13,311	10,229	1,178,240
Derivative financial instruments	855	119	1,153	(35)	2,092
Certificates of deposit issued	–	307	634	–	941
Convertible bonds issued	2	–	–	–	2
Other debts issued	4,996	–	–	–	4,996
Subordinated notes issued	33,440	–	–	–	33,440
Other liabilities	25,636	1,490	12	66	27,204
	1,308,473	77,083	16,032	10,347	1,411,935
Net on-balance sheet position	46,820	13,595	28,551	(1,529)	87,437
Off-balance sheet position:					
Credit commitments (note)	237,182	42,281	1,987	4,649	286,099
Derivatives:					
– forward purchase	38,381	43,936	3,389	4,550	90,256
– forward sales	(40,934)	(45,874)	(324)	(2,963)	(90,095)
– net option position	–	(20)	–	20	–

Note: Credit commitments generally expire before they are drawn; therefore the above net position (net of pledged deposits) does not represent the future cash flows need.

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(c) Currency risk *(continued)*

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and loss. The following table sets forth, as at 31 December 2009 and 31 December 2008, the results of the Group's currency risk sensitivity analysis on the assets and liabilities at the same date.

	2009		2008	
	Change in foreign currency exchange rate (in basis point)		Change in foreign currency exchange rate (in basis point)	
	(100)	**100**	(100)	100
Increase/(decrease) in annualised net profit	**85**	**(85)**	(120)	120

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities. In view of the nature of the RMB exchange rate regime, the analysis is based on the following assumptions:

(i) the foreign exchange sensitivity is the gain and loss recognised as a result of a standard 100 basis point fluctuation in the foreign currency exchange rates against RMB,

(ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously, and

(iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options.

Actual changes in the Group's net foreign exchange gain and loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(d) Interest rate risk

The Group's interest rate exposures are primarily those arising from the basis risk of its lending and deposit taking activities governed by the benchmark interest rate set by the PBOC, and the repricing of assets and liabilities.

The ALCO regularly monitors such interest rate risk positions. The Group regularly performs gap analysis, sensitivity analysis, scenario analysis and stress tests on these interest rate positions to measure and manage the risk in order to limit the potential adverse impacts of movements in interest rate on net interest income.

As the reference interest rates for RMB loans and deposits are determined by the PBOC, the Group follows the interest rates set by the PBOC when carrying out lending and deposit taking activities. The Group's monetary assets and liabilities are mainly in RMB.

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

In 2009, the Group began establishing comprehensive systems and regulations to control the interest rate risk of its bank accounts. It completed formulating regulations on interest rate risk management – "China Merchant Bank's Interest Rate Risk Management Measures for Bank Accounts", it improved the Group's risk management in this regard. Meanwhile, the Group established a treasury operation mechanism, including setting rules for regular meetings, adjusting work procedures, and specifying roles and responsibilities. Such a mechanism enabled the Group to effectively analyse the causes of interest rate risk and propose and implement control measures.

The following table indicates the effective interest rates and the expected next repricing dates (or maturity dates whichever are earlier) for interest bearing assets and liabilities at the balance sheet date.

	Group						
	2009						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.50%	216,167	207,807	–	–	–	8,360
Amounts due from banks and other financial institutions	1.46%	270,125	196,136	70,012	–	–	3,977
Loans and advances to customers (note (i))	4.42%	1,161,817	736,226	397,554	20,894	7,098	45
Investments	3.09%	377,072	89,355	101,260	115,131	69,106	2,220
Other assets	–	42,760	521	895	–	–	41,344
Total assets		2,067,941	1,230,045	569,721	136,025	76,204	55,946
Liabilities							
Amounts due to banks and other financial institutions	1.57%	265,119	252,332	12,434	161	–	192
Deposits from customers	1.39%	1,608,146	1,264,851	281,096	51,572	5,260	5,367
Financial liabilities at fair value through profit or loss	1.01%	2,677	207	820	176	–	1,474
Certificates of deposit issued	0.75%	4,462	4,462	–	–	–	–
Other debts issued	2.61%	4,998	–	4,998	–	–	–
Subordinated notes issued	5.63%	31,271	–	3,994	18,970	8,307	–
Other liabilities	–	58,485	–	85	–	–	58,400
Total liabilities		1,975,158	1,521,852	303,427	70,879	13,567	65,433
Asset-liability gap		92,783	(291,807)	266,294	65,146	62,637	(9,487)

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	Group						
	2008						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.67%	181,601	174,673	–	–	–	6,928
Amounts due from banks and other financial institutions	2.85%	186,466	166,664	18,728	7	–	1,067
Loans and advances to customers (note (i))	6.53%	852,754	552,230	275,998	17,183	7,309	34
Investments	3.78%	310,446	70,584	124,015	69,403	43,123	3,321
Other assets	–	40,530	–	–	–	–	40,530
Total assets		1,571,797	964,151	418,741	86,593	50,432	51,880
Liabilities							
Amounts due to banks and other financial institutions	1.94%	165,916	161,722	3,885	161	–	148
Deposits from customers	1.92%	1,250,648	948,795	238,155	49,719	5,334	8,645
Financial liabilities at fair value through profit or loss	–	4,618	1,408	761	183	–	2,266
Certificates of deposit issued	1.43%	1,840	1,840	–	–	–	–
Convertible bonds issued	3.70%	2	–	2	–	–	–
Other debts issued	2.19%	4,996	–	–	4,996	–	–
Subordinated notes issued	6.32%	33,440	–	7,492	18,962	6,986	–
Other liabilities	–	30,556	–	–	–	–	30,556
Total liabilities		1,492,016	1,113,765	250,295	74,021	12,320	41,615
Asset-liability gap		79,781	(149,614)	168,446	12,572	38,112	10,265

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	Bank						
	2009						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.50%	215,108	207,733	–	–	–	7,375
Amounts due from banks and other financial institutions	1.51%	246,453	173,706	69,364	–	–	3,383
Loans and advances to customers (note (i))	4.49%	1,105,816	688,965	389,279	20,563	7,009	–
Investments	3.16%	352,258	71,579	99,575	110,491	69,085	1,528
Other assets	–	56,282	–	–	–	–	56,282
Total assets		1,975,917	1,141,983	558,218	131,054	76,094	68,568
Liabilities							
Amounts due to banks and other financial institutions	1.56%	255,689	249,787	5,741	161	–	–
Deposits from customers	1.44%	1,526,941	1,193,852	275,922	51,274	5,260	633
Derivative financial instruments	1.01%	1,793	–	643	176	–	974
Certificates of deposit issued	0.67%	2,719	2,719	–	–	–	–
Other debts issued	2.61%	4,998	–	4,998	–	–	–
Subordinated notes issued	5.68%	29,950	–	3,994	18,969	6,987	–
Other liabilities	–	53,419	–	–	–	–	53,419
Total liabilities		1,875,509	1,446,358	291,298	70,580	12,247	55,026
Asset-liability gap		100,408	(304,375)	266,920	60,474	63,847	13,542

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	Bank						
	2008						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.67%	181,119	174,640	–	–	–	6,479
Amounts due from banks and other financial institutions	3.34%	151,040	131,551	18,661	7	–	821
Loans and advances to customers (note (i))	6.80%	812,106	514,879	275,098	14,996	7,133	–
Investments	3.85%	300,339	64,782	121,805	67,907	43,074	2,771
Other assets	–	54,768	–	–	–	–	54,768
Total assets		1,499,372	885,852	415,564	82,910	50,207	64,839
Liabilities							
Amounts due to banks and other financial institutions	1.95%	165,020	161,213	3,604	161	–	42
Deposits from customers	2.02%	1,178,240	882,066	235,635	49,677	5,334	5,528
Derivative financial instruments	–	2,092	–	–	–	–	2,092
Certificates of deposit issued	1.95%	941	941	–	–	–	–
Convertible bonds issued	3.70%	2	–	2	–	–	–
Other debts issued	2.19%	4,996	–	–	4,996	–	–
Subordinated notes issued	6.32%	33,440	–	7,492	18,962	6,986	–
Other liabilities	–	27,204	–	–	–	–	27,204
Total liabilities		1,411,935	1,044,220	246,733	73,796	12,320	34,866
Asset-liability gap		87,437	(158,368)	168,831	9,114	37,887	29,973

Note:

(i) For loans and advances to customers, the above "3 months or less" category includes overdue amounts as at 31 December 2009 (net of allowances for impairment losses). Overdue amounts represent loans of which the whole or part of the principals was overdue.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth, as at 31 December 2009 and 31 December 2008, the results of the Group's interest rate sensitivity analysis on the assets and liabilities at the same date.

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(d) Interest rate risk *(continued)*

	2009		2008	
	Change in interest rates (in basis point)		Change in interest rates (in basis point)	
	100	**(100)**	100	(100)
(Decrease)/increase in annualised net profit	**(1,903)**	**1,903**	(967)	967

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Group's assets and liabilities within a year, on annualised interest income. The analysis is based on the following assumptions:

(i) all assets and liabilities that reprice or are due within one year reprice or are due at the beginning of the respective periods,

(ii) there is a parallel shift in the yield curve and in interest rates, and

(iii) there are no other changes to the portfolio.

Actual changes in the Group's net interest income resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

(e) Liquidity risk

Liquidity risk is the risk the Group cannot satisfy the customers by repaying deposits that fall due, granting new loans or providing financing, or that the Group cannot satisfy these requirements at a normal cost. The Group's liquidity is managed by the Planning and Finance Department. The Planning and Finance Department is responsible for managing liquidity on a prudent basis to meet regulatory requirement. The liquidity of the Group is centrally managed by the head office using the internal funds transfer pricing mechanism.

The Group adopts a centralised liquidity management approach. Through the internal funds transfer pricing mechanism, branches are guided to adjust the durations and product structures of their assets and liabilities. The Group closely monitors its daily position, monthly liquidity ratio and liquidity gap ratio, and performs stress testing to verify the bank's ability to meet liquidity needs under extreme circumstances. In addition, the Group has a liquidity risk warning system and a liquidity contingency plan in place to tackle any liquidity crises.

45 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

In 2009, the Group adhered to the macro-economic loose monetary policies and avoided the redundancy of capital and enhanced the efficiency in capital utilization by increasing its efforts in credit extension and encouraging different investment and financing businesses including interbank placements and repurchase of bills to be developed. At the end of the second quarter, with the PBOC slightly adjusted its monetary policies, market liquidity charged from extremely loose to moderately loose. The Group took into account the actual situation, and adjusted its liquidity management strategies well in advance according to the charges in monetary policies with a view to enhance the flexibility in capital utilization. Meanwhile, the Group began to increase its investment in bonds. The Group adjusted its liquidity management strategies based on macro-economic policies to ensure that its capital could be fully utilized with prudent liquidity management as a prerequisite.

The majority of the Group's assets come from customer deposits, mainly deposits from companies, retail customers and financial institutions. An analysis of the past three years' data shows that the Group's deposits from customers have been growing continuously, with a rising variety of deposit products with various maturities and have become a stable source of funds for the Group.

13.5% (2008: 13.5%) and 5% (2008: 5%) of eligible RMB deposits and foreign currency deposits respectively are deposits in PBOC as required.

A significant aspect of the market turmoil continues to be its adverse effect on the liquidity and funding risk profile of the banking system in the US and Europe. The Group's interbank funding transactions were mainly with PRC banks, and China's money market was not significantly affected by the global financial crisis. As a result, the liquidity position of the Group remained stable.

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by remaining maturity is as follows:

	2009							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	42,853	–	–	–	–	–	173,314	216,167
Amounts due from banks and other financial institutions	17,193	101,302	82,427	68,929	274	–	–	270,125
Loans and advances to customers (note (ii))	2,851	52,753	138,472	426,930	288,670	248,191	3,950	1,161,817
Investments (note (iii))	–	12,327	28,251	55,421	187,580	91,242	2,251	377,072
– at fair value through profit or loss	–	854	2,638	1,896	7,903	2,509	1,055	16,855
– available-for-sale	–	7,740	16,627	15,147	140,518	63,688	1,196	244,916
– held-to-maturity	–	3,733	5,185	21,582	25,429	24,272	–	80,201
– receivables	–	–	3,801	16,796	13,730	773	–	35,100
Other assets	3,648	1,364	1,611	3,527	1,126	985	30,499	42,760
Total assets	66,545	167,746	250,761	554,807	477,650	340,418	210,014	2,067,941
Amounts due to banks and other financial institutions	150,293	87,559	14,623	11,483	1,161	–	–	265,119
Deposits from customers (note (iv))	967,216	135,785	162,468	283,080	59,097	500	–	1,608,146
Financial liabilities at fair value through profit or loss	–	26	181	820	176	–	1,474	2,677
Certificates of deposit issued	–	97	447	2,511	1,407	–	–	4,462
Other debts issued	–	–	–	4,998	–	–	–	4,998
Subordinated notes issued	–	–	–	–	–	31,271	–	31,271
Other liabilities	22,318	28,647	1,457	2,691	2,037	930	405	58,485
Total liabilities	1,139,827	252,114	179,176	305,583	63,878	32,701	1,879	1,975,158
(Short)/long position	(1,073,282)	(84,368)	71,585	249,224	413,772	307,717	208,135	92,783

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by remaining maturity is as follows: *(continued)*

	2008							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	53,680	–	–	–	–	–	127,921	181,601
Amounts due from banks and other financial institutions	14,039	93,564	59,747	18,731	385	–	–	186,466
Loans and advances to customers (note (ii))	3,508	45,899	117,208	374,444	167,610	141,556	2,529	852,754
Investments (note (iii))	–	16,550	18,734	76,507	136,272	58,959	3,424	310,446
– at fair value through profit or loss	–	625	1,139	5,074	7,022	1,454	2,385	17,699
– available-for-sale	–	12,923	15,119	62,834	71,594	43,462	1,027	206,959
– held-to-maturity	–	3,002	1,860	6,685	45,463	13,357	6	70,373
– receivables	–	–	616	1,914	12,193	686	6	15,415
Other assets	4,935	1,248	1,353	2,310	862	1,032	28,790	40,530
Total assets	76,162	157,261	197,042	471,992	305,129	201,547	162,664	1,571,797
Amounts due to banks and other financial institutions	98,456	34,179	28,485	3,635	1,161	–	–	165,916
Deposits from customers (note (iv))	694,315	113,071	144,483	238,655	58,570	1,554	–	1,250,648
Financial liabilities at fair value through profit or loss	–	317	471	1,069	495	–	2,266	4,618
Certificates of deposit issued	–	440	306	610	484	–	–	1,840
Convertible bonds issued	–	–	–	2	–	–	–	2
Other debts issued	–	–	–	–	4,996	–	–	4,996
Subordinated notes issued	–	–	–	–	3,500	29,940	–	33,440
Other liabilities	22,698	837	1,485	2,484	1,475	1,318	259	30,556
Total liabilities	815,469	148,844	175,230	246,455	70,681	32,812	2,525	1,492,016
(Short)/long position	(739,307)	8,417	21,812	225,537	234,448	168,735	160,139	79,781

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Bank's assets and liabilities by remaining maturity is as follows:

	2009							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	41,855	–	–	–	–	–	173,253	215,108
Amounts due from banks and other financial institutions	16,195	87,087	75,092	68,054	25	–	–	246,453
Loans and advances to customers (note (ii))	1,960	52,191	135,529	417,343	260,813	234,342	3,638	1,105,816
Investments (note (iii))	–	9,820	24,546	50,685	173,315	92,364	1,528	352,258
– at fair value through profit or loss	–	270	1,771	702	5,255	2,487	896	11,381
– available-for-sale	–	7,740	16,627	13,489	131,953	63,619	632	234,060
– held-to-maturity	–	1,810	2,347	19,698	22,377	24,165	–	70,397
– receivables	–	–	3,801	16,796	13,730	2,093	–	36,420
Other assets	3,491	841	1,219	2,652	227	10	47,842	56,282
Total assets	63,501	149,939	236,386	538,734	434,380	326,716	226,261	1,975,917
Amounts due to banks and other financial institutions	150,323	85,390	14,376	4,439	1,161	–	–	255,689
Deposits from customers (note (iv))	935,535	107,232	146,969	277,906	58,799	500	–	1,526,941
Financial liabilities at fair value through profit or loss	–	–	–	643	176	–	974	1,793
Certificates of deposit issued	–	–	341	1,058	1,320	–	–	2,719
Other debts issued	–	–	–	4,998	–	–	–	4,998
Subordinated notes issued	–	–	–	–	–	29,950	–	29,950
Other liabilities	21,966	27,564	879	2,156	814	40	–	53,419
Total liabilities	1,107,824	220,186	162,565	291,200	62,270	30,490	974	1,875,509
(Short)/long position	(1,044,323)	(70,247)	73,821	247,534	372,110	296,226	225,287	100,408

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Bank's assets and liabilities by remaining maturity is as follows: *(continued)*

	2008							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	53,213	–	–	–	–	–	127,906	181,119
Amounts due from banks and other financial institutions	13,207	63,195	55,945	18,661	32	–	–	151,040
Loans and advances to customers (note (ii))	2,503	45,086	115,386	369,528	148,548	128,667	2,388	812,106
Investments (note (iii))	–	14,176	16,551	73,634	134,429	58,727	2,822	300,339
– at fair value through profit or loss	–	–	531	3,339	5,569	1,425	2,252	13,116
– available-for-sale	–	12,923	15,119	62,197	71,420	43,374	558	205,591
– held-to-maturity	–	1,253	285	6,184	45,247	13,242	6	66,217
– receivables	–	–	616	1,914	12,193	686	6	15,415
Other assets	4,775	934	1,220	2,007	581	4	45,247	54,768
Total assets	73,698	123,391	189,102	463,830	283,590	187,398	178,363	1,499,372
Amounts due to banks and other financial institutions	98,443	33,668	28,144	3,604	1,161	–	–	165,020
Deposits from customers (note (iv))	672,968	80,682	128,373	236,135	58,528	1,554	–	1,178,240
Derivative financial instruments	–	–	–	–	–	–	2,092	2,092
Certificates of deposit issued	–	440	–	307	194	–	–	941
Convertible bonds issued	–	–	–	2	–	–	–	2
Other debts issued	–	–	–	–	4,996	–	–	4,996
Subordinated notes issued	–	–	–	–	3,500	29,940	–	33,440
Other liabilities	22,178	480	1,232	1,930	773	611	–	27,204
Total liabilities	793,589	115,270	157,749	241,978	69,152	32,105	2,092	1,411,935
(Short)/long position	(719,891)	8,121	31,353	221,852	214,438	155,293	176,271	87,437

Notes:

(i) For balances with central bank, indefinite amount represents statutory deposit reserve funds and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, indefinite amounts represent loans of which the whole or part of the principals was overdue for more than 1 month. The indefinite amounts are stated net of appropriate allowances for impairment losses.

(iii) The remaining maturities of trading assets and assets designated at fair value through profit or loss included in investments do not represent the Bank's intention to hold them to maturity.

(iv) The deposits from customers that are repayable on demand included time deposits matured and awaiting for customers' instructions.

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the residual contractual maturities of non-derivative financial assets, liabilities and gross loan commitments of the Group at the balance sheet date is as follows. Assets and liabilities in trading portfolios are not included in this analysis as they are typically held for short periods of time. The amounts disclosed below are the contractual undiscounted cash flow:

	2009								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	216,167	216,167	42,853	–	–	–	–	–	173,314
Amounts due from banks and other financial institutions	270,125	272,431	17,299	101,659	83,213	69,974	281	–	5
Loans and advances to customers	1,161,817	1,347,523	3,576	55,870	147,579	453,170	356,358	327,120	3,850
Investments									
– at fair value through profit or loss	15,856	17,207	–	1,788	2,684	1,913	7,825	2,941	56
– available-for-sale	244,916	288,258	–	7,941	17,062	17,257	161,026	83,772	1,200
– held-to-maturity	80,201	99,264	–	3,832	5,519	22,248	30,196	37,468	1
– receivables	35,100	36,663	466	4	3,878	17,032	13,894	1,389	–
Other assets	5,878	6,932	2,798	446	345	1,474	674	444	751
	2,030,060	2,284,445	66,992	171,540	260,280	583,068	570,254	453,134	179,177
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	265,119	265,886	150,426	87,646	14,824	11,710	1,274	6	–
Deposits from customers	1,608,146	1,634,213	970,952	137,133	165,050	291,408	69,018	652	–
Financial liabilities at fair value through profit or loss	1,203	1,212	–	27	183	824	178	–	–
Certificates of deposit issued	4,462	4,485	–	98	452	2,523	1,412	–	–
Other debts issued	4,998	5,127	–	–	–	5,127	–	–	–
Subordinated notes issued	31,271	32,991	–	4	22	615	416	31,934	–
Other liabilities	49,246	49,248	18,488	28,119	547	492	1,115	82	405
	1,946,445	1,993,162	1,139,866	253,027	181,078	312,699	73,413	32,674	405
Gross loan commitments		148,984	148,984	–	–	–	–	–	–

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the residual contractual maturities of non-derivative financial assets, liabilities and gross loan commitments of the Group at the balance sheet date is as follows. Assets and liabilities in trading portfolios are not included in this analysis as they are typically held for short periods of time. The amounts disclosed below are the contractual undiscounted cash flow: *(continued)*

	2008								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	181,601	181,601	53,680	–	–	–	–	–	127,921
Amounts due from banks and other financial institutions	186,466	188,615	14,140	93,886	60,709	19,466	407	–	7
Loans and advances to customers	852,754	996,960	4,154	49,019	125,705	396,542	219,096	199,908	2,536
Investments									
– at fair value through profit or loss	15,412	19,406	–	646	1,224	5,276	7,982	1,929	2,349
– available-for-sale	206,959	234,207	–	13,520	15,631	64,788	81,050	58,190	1,028
– held-to-maturity	70,373	90,436	–	3,105	2,241	7,305	56,381	21,398	6
– receivables	15,415	16,917	–	–	679	2,153	13,393	686	6
Other assets	5,283	5,473	3,874	210	83	356	56	8	886
	1,534,263	1,733,615	75,848	160,386	206,272	495,886	378,365	282,119	134,739
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	165,916	166,898	98,726	34,337	28,713	3,810	1,307	5	–
Deposits from customers	1,250,648	1,278,777	697,005	114,695	147,791	248,238	68,853	2,195	–
Financial liabilities at fair value through profit or loss	2,352	2,390	–	320	483	1,092	495	–	–
Certificates of deposit issued	1,840	1,876	–	443	309	633	491	–	–
Convertible bonds issued	2	2	–	–	–	2	–	–	–
Other debts issued	4,996	5,229	–	–	–	128	5,101	–	–
Subordinated notes issued	33,440	44,972	–	–	–	1,821	11,692	31,459	–
Other liabilities	22,417	22,417	19,734	272	201	540	703	708	259
	1,481,611	1,552,561	815,465	150,067	177,497	256,264	88,642	34,367	259
Gross loan commitments		106,945	106,945	–	–	–	–	–	–

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the residual contractual maturities of non-derivative financial assets, liabilities and gross loan commitments of the Group at the balance sheet date is as follows. Assets and liabilities in trading portfolios are not included in this analysis as they are typically held for short periods of time. The amounts disclosed below are the contractual undiscounted cash flow: *(continued)*

	2009								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	215,108	215,108	41,855	–	–	–	–	–	173,253
Amounts due from banks and other financial institutions	246,453	248,727	16,345	87,385	75,868	69,093	31	–	5
Loans and advances to customers	1,105,816	1,285,687	2,681	55,200	144,410	442,337	325,916	311,482	3,661
Investments									
– at fair value through profit or loss	10,485	11,625	–	275	1,804	752	5,852	2,942	–
– available-for-sale	234,060	276,989	–	7,929	17,015	15,373	152,265	83,772	635
– held-to-maturity	70,397	89,206	–	1,895	2,658	20,244	26,966	37,442	1
– receivables	36,420	37,983	466	5	3,879	17,033	13,895	2,705	–
Other assets	35,394	35,394	2,640	–	–	–	–	–	32,754
	1,954,133	2,200,719	63,987	152,689	245,634	564,832	524,925	438,343	210,309
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	255,689	256,303	150,453	85,476	14,527	4,567	1,274	6	–
Deposits from customers	1,526,941	1,552,275	939,224	108,529	149,512	286,191	68,250	569	–
Financial liabilities at fair value through profit or loss	819	827	–	–	2	647	178	–	–
Convertible bonds issued	2,719	2,736	–	1	345	1,066	1,324	–	–
Other debts issued	4,998	5,127	–	–	–	5,127	–	–	–
Subordinated notes issued	29,950	30,487	–	–	–	537	–	29,950	–
Other liabilities	45,212	45,212	18,147	27,065	–	–	–	–	
	1,866,328	1,892,967	1,107,824	221,071	164,386	298,135	71,026	30,525	–
Gross loan commitments		134,931	134,931	–	–	–	–	–	–

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the residual contractual maturities of non-derivative financial assets, liabilities and gross loan commitments of the Group at the balance sheet date is as follows. Assets and liabilities in trading portfolios are not included in this analysis as they are typically held for short periods of time. The amounts disclosed below are the contractual undiscounted cash flow: *(continued)*

	2008								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	181,119	181,119	53,213	–	–	–	–	–	127,906
Amounts due from banks and other financial institutions	151,040	153,129	13,308	63,489	56,895	19,390	40	–	7
Loans and advances to customers	812,106	950,897	3,144	48,103	123,668	390,858	197,560	185,161	2,403
Investments									
– at fair value through profit or loss	10,865	14,604	–	7	598	3,483	6,346	1,918	2,252
– available-for-sale	205,591	232,767	–	13,518	15,627	64,123	80,772	58,168	559
– held-to-maturity	66,217	86,192	–	1,353	655	6,774	56,038	21,366	6
– receivables	15,415	16,917	–	–	679	2,153	13,393	686	6
Other assets	35,787	35,787	3,722	–	–	–	–	–	32,065
	1,478,140	1,671,412	73,387	126,470	198,122	486,781	354,149	267,299	165,204
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	165,020	165,998	98,713	33,775	28,371	3,827	1,307	5	–
Deposits from customers	1,178,240	1,206,145	675,656	82,208	131,596	245,682	68,808	2,195	–
Certificates of deposit issued	941	954	–	440	–	319	195	–	–
Convertible bonds issued	2	2	–	–	–	2	–	–	–
Other debts issued	4,996	5,229	–	–	–	128	5,101	–	–
Subordinated notes issued	33,440	44,972	–	–	–	1,821	11,692	31,459	–
Other liabilities	19,219	19,219	19,219	–	–	–	–	–	–
	1,401,858	1,442,519	793,588	116,423	159,967	251,779	87,103	33,659	–
Gross loan commitments		96,233	96,233	–	–	–	–	–	–

(f) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

Taking the opportunity to implement Basel II in 2009, the Group greatly improved its capability and effectiveness in managing operational risk and achieved effective control over operational risk through: optimising its organisational structure, measuring risk, developing control tools, formulating and refining related risk management policies, as well as strengthening internal controls, inspecting operational risk, enhancing employee's awareness and capability in risk prevention, and implementing a stringent accountability system.

45 RISK MANAGEMENT *(continued)*

(g) Capital management

The Group's capital management comprises the management of the capital adequacy ratio, capital financing, and economic capital, of which the prime focus is capital adequacy ratio management.

The Group calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. These guidelines may differ significantly from the relevant requirements in Hong Kong or other jurisdictions. The capital of the Group is analysed into core capital and supplementary capital. The core capital mainly includes paid-up share capital or ordinary shares, capital reserve, surplus reserve, retained earnings, and minority interest, after the deductions of dividends declared after the balance sheet date, as well as deductions of 100% of goodwill and 50% of unconsolidated equity investments. Supplementary capital includes general provisions, long-term subordinated bonds, and reserves arising from changes in the fair value of available-for-sale debt securities.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital shall not exceed 50% of the core capital. When total positions of trading accounts exceed 10% of the on- and off-balance sheet total assets, or RMB8.5 billion, commercial banks must provide for market risk capital. At present, the Group is fully compliant with legal and regulatory requirements.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Group's sound operations and risk management capability. The Group's capital adequacy ratio management objectives are to meet the legal and regulatory requirements and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.

(h) Use of derivatives

Derivatives are off-balance sheet financial instruments which include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets.

The Group enters into financial derivative transactions for treasury business and its assets and liabilities management purpose. Derivative financial instruments include (but are not limited to): foreign exchange swaps, forward foreign exchange trading, currency swaps, forward rate agreements, interest rate swaps, interest rate options, credit default swaps, bond options, equity swaps, interest rates and credit derivatives. The Group's derivative financial instruments can be divided into trading derivative financial instruments and derivative financial instruments, which are managed together with financial instruments designated at fair value through profit or loss according to the purposes of holding.

The Group will choose appropriate hedging strategies and tools in light of the risk profile of interest/exchange rates of its assets and liabilities, as well as its analyses and judgement regarding future interest/exchange rate movements.

The Group is exposed to risk on assets or liabilities denominated in foreign currencies as their value may fluctuate due to changes in exchange rates. Such risk can be offset through the use of forward foreign exchange contracts or foreign exchange option contracts.

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

The following tables provide an analysis of the notional amounts of derivatives of the Group by maturity groupings based on the remaining periods to settlement and the corresponding fair values at the balance sheet date. The notional amounts of the derivatives indicate the transaction volume outstanding at the balance sheet date; they do not represent amounts at risk.

	Group 2009						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	200	1,773	3,081	137	5,191	55	(138)
Currency derivatives							
Spot	16,276	–	–	–	16,276	1	(3)
Forwards	7,868	76,927	5,621	–	90,416	657	(506)
Foreign exchange swaps	27,975	20,242	689	–	48,906	78	(200)
Options	15,563	1	–	–	15,564	136	(139)
	67,682	97,170	6,310	–	171,162	872	(848)
Other derivatives							
Equity swaps	112	413	26	–	551	9	(9)
Equity options	386	50	–	–	436	14	(4)
Credit default swaps	–	205	2,389	–	2,594	11	(10)
	498	668	2,415	–	3,581	34	(23)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	313	1,098	2,489	–	3,900	38	(206)
Currency derivatives							
Foreign exchanges swaps	–	176	–	–	176	–	(1)
Other derivatives							
Equity options	–	202	1,795	–	1,997	–	(258)
	313	1,476	4,284	–	6,073	38	(465)
Total						999	(1,474)
						(Note 19(a))	

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

	Group						
	2008						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	1,860	34,691	7,303	136	43,990	197	(388)
Currency derivatives							
Spot	15,895	–	–	–	15,895	17	(16)
Forwards	20,024	32,217	1,344	–	53,585	1,400	(1,165)
Foreign exchange swaps	10,724	9,645	405	–	20,774	216	(113)
Options	9,654	56	–	–	9,710	295	(318)
	56,297	41,918	1,749	–	99,964	1,928	(1,612)
Other derivatives							
Equity swaps	1,617	1,189	112	–	2,918	59	(59)
Equity options	351	16	–	–	367	6	(6)
Credit default swaps	–	–	3,303	–	3,303	97	(187)
	1,968	1,205	3,415	–	6,588	162	(252)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	–	–	136	–	136	–	(14)
Total						2,287	(2,266)
						(Note 19(a))	

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

	Bank						
	2009						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	200	1,773	2,955	137	5,065	55	(131)
Currency derivatives							
Spot	16,276	–	–	–	16,276	1	(3)
Forwards	7,783	76,927	5,541	–	90,251	654	(503)
Foreign exchange swaps	19,765	19,559	689	–	40,013	34	(168)
Options	14,106	–	–	–	14,106	131	(134)
	57,930	96,486	6,230	–	160,646	820	(808)
Other derivatives							
Equity swaps	112	413	26	–	551	9	(9)
Credit default swaps	–	205	2,389	–	2,594	11	(10)
	112	618	2,415	–	3,145	20	(19)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	–	467	381	–	848	1	(15)
Currency derivatives							
Foreign exchange swaps	–	176	–	–	176	–	(1)
	–	643	381	–	1,024	1	(16)
Total						896	(974)
						(Note 19(a))	

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(h) Use of derivatives *(continued)*

	Bank						
	2008						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	1,190	33,338	5,707	136	40,371	178	(229)
Currency derivatives							
Spot	15,895	–	–	–	15,895	17	(16)
Forwards	19,939	32,214	1,344	–	53,497	1,397	(1,164)
Foreign exchange swaps	10,334	9,475	405	–	20,214	215	(111)
Options	9,308	–	–	–	9,308	289	(312)
	55,476	41,689	1,749	–	98,914	1,918	(1,603)
Other derivatives							
Equity swaps	1,617	1,189	112	–	2,918	59	(59)
Credit default swaps	–	–	3,303	–	3,303	97	(187)
	1,617	1,189	3,415	–	6,221	156	(246)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	–	–	136	–	136	–	(14)
Total						2,252	(2,092)
						(Note 19(a))	

The credit risk weighted amounts in respect of these derivatives are as follows. These amounts take into account the effects of bilateral netting arrangements.

Credit risk weighted amounts

	2009	2008
Interest rate derivatives	**93**	62
Currency derivatives	**2,463**	585
Other derivatives	**39**	37
	2,595	684

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics.

(Expressed in millions of Renminbi unless otherwise stated)

45 RISK MANAGEMENT *(continued)*

(i) Fair value information

(i) Financial assets

The Group's financial assets mainly include cash, deposits and placements with the central banks, banks and other financial institutions, loans and advances to customers and investments.

Except for loans and advances and held-to-maturity investments, most of the financial assets mature within 1 year or are already stated at fair value, and therefore their carrying values approximate their fair values.

Loans and advances are stated at amortised costs less allowances for impairment loss (Note 18). The interest rate of loans and advances will be adjusted in accordance with the PBOC rates, and impairment allowance is made to reduce the carrying amount of impaired loans to estimated recoverable amount. Accordingly, the carrying values of loans and advances are close to the fair values.

Held-to-maturity debt securities investments are stated at amortised costs less impairment, and the fair values are disclosed in Note 19(c).

(ii) Financial liabilities

Financial liabilities mainly include customer deposits, deposits and placements from banks and other financial institutions, and debts issued by the Bank. The carrying values of financial liabilities approximate their fair values at the balance sheet date of the year presented, except the financial liabilities set out below:

Carrying value

	2009	2008
Convertible bonds issued	–	2
Subordinated notes issued	**31,271**	33,440
	31,271	33,442

Fair value

	2009	2008
Convertible bonds issued	–	4
Subordinated notes issued	**32,712**	35,873
	32,712	35,877

46 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances

Loan portfolios are assessed periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual loan. Objective evidence for impairment is described in accounting policy 2(n). The impairment loss for a loan that is individually evaluated for impairment is the decrease in the estimated future cash flow of that loan. When loans and advances are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data on market volatility and historical share price of the specific equity investment as well as other factors, such as sector performance and financial information regarding the investee.

(c) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

46 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(f) Defined benefit scheme

Actuarial assumptions are made in valuing future pension obligations as set out in note 32(a). There is uncertainty that these assumptions will hold true in the future. They are reviewed periodically and are updated where necessary.

(g) Ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the Group's critical accounting estimates. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of loss events that have been incurred but not reported ("IBNR") to the Group as of the balance sheet date. The estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim events is available. IBNR claims may not be apparent to the insured until many years after the event that gives rise to the claim has happened.

Estimation of the ultimate cost of certain liability claims can be a complex process. There are several sources of uncertainty that need to be considered in the estimating of the liability that the Group will ultimately pay for such claims. In particular, the claims arising from the employees' compensation and other liability policies can be longer in tail and difficult to estimate. The Group has appointed an independent actuary to estimate the claim liabilities using established actuarial methodologies. The methodologies are statistical in nature and can be affected by various factors. The more significant factors that can affect the reliability of the liability estimation include jurisprudence that can broaden the intent and scope coverage of the protections offered in the insurance contracts issued by the Group, the extent to which actual claim results differ from historical experience and the time lag between the occurrence of the event and the report of such claim to the Group.

(h) Provisions

Judgement has been exercised in determining the amount which may be payable to customers in respect of complaints or legal claims arising from the sale of investment products.

(Expressed in millions of Renminbi unless otherwise stated)

47 MATERIAL RELATED-PARTY TRANSACTIONS

(a) Material connected person information

The Bank's largest shareholder and its parent company and the Bank's subsidiaries.

Company name	Registered location	Issued and fully paid capital	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB6,300 million	18.10% (note (i))	–	Transportation, shipping agency, ware housing and storage, leasing, building and facility, repair and contracting, operating management service	Largest shareholder's parent company	Limited company	Qin Xiao
China Merchants Steam Navigation Company Limited (CMSNCL)	Beijing	RMB200 million	12.37% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services	Largest shareholder	Joint stock limited company	Qin Xiao
CMB International Capital Corporation Limited (CMBICCL)	Hong Kong	HKD250 million	–	100%	Financial advisory	Subsidiary	Limited company	Ma Weihua
CMB Financial Leasing Corporation Limited (CMBFLCL)	Shanghai	RMB2,000 million	–	100%	Financial leasing and advisory	Subsidiary	Limited company	Wang Qingbin
Winglung Bank Limited. (WLB)	Hong Kong	HKD1,161 million	–	100%	Banking	Subsidiary	Limited company	Ma Weihua

(i) CMG hold 18.10% of the Bank (2008: 18.04%) through its subsidiaries.

(ii) As the largest shareholder, CMSNCL who is the subsidiary of CMG, hold 12.37% of the Bank (2008: 12.37%).

The registered capital of each company

Connected person	2009	2008
CMG	**RMB6,300,000,000**	RMB5,400,000,000
CMSNCL	**RMB200,000,000**	RMB200,000,000
CMBICCL	**HKD250,000,000**	HKD250,000,000
CMBFLCL	**RMB2,000,000,000**	RMB2,000,000,000
WLB	**HKD1,160,950,575**	HKD1,160,950,575

The change of proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

	CMSNCL		CMBICCL		CMBFLCL		WLB	
	RMB	%	HKD	%	RMB	%	HKD	%
At 1 January 2009	1,818,720,804	12.37	250,000,000	100.00	2,000,000,000	100.00	1,135,641,852	97.82
Change	545,865,568	–	–	–	–	–	25,308,723	2.18
At 31 December 2009	2,364,586,372	12.37	250,000,000	100.00	2,000,000,000	100.00	1,160,950,575	100.00

(Expressed in millions of Renminbi unless otherwise stated)

47 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(b) Transaction terms and conditions

During the year, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. The Directors are of the opinion that the Group's material related-party transactions were all entered into on normal commercial terms. The banking transactions were priced at the relevant market rates prevailing at the time of each transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	2009	2008
Short-term loans	**4.86% to 7.47% p.a.**	4.86% to 7.47% p.a.
Medium to long-term loans	**5.40% to 7.83% p.a.**	5.40% to 7.83% p.a.
Saving deposits	**0.36% to 0.72% p.a.**	0.36% to 0.72% p.a.
Time deposits	**1.17% to 5.85% p.a.**	1.17% to 5.85% p.a.

There were no individually assessed allowances for impairment losses made against loans and advances granted to related parties during the year.

(c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies hold 18.10% (2008: 17.89%) shares of the Bank as at 31 December 2009 (among them, 12.37% shares is held by CMSNCL (2008: 12.37%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	Group		**Bank**	
	2009	2008	**2009**	2008
On balance sheet:				
– Loans and advances	**3,551**	4,411	**3,279**	3,712
– Investments	**2,472**	2,168	**2,471**	2,167
– Deposits from customers	**37,047**	23,052	**36,996**	22,260
Off-balance sheet:				
– Irrevocable guarantee	**547**	988	**437**	869
– Irrevocable letters of credit	**101**	169	**101**	169
– Bills of acceptances	**298**	269	**298**	269
Average balance of loans and advances	**3,923**	4,436	**3,513**	3,807
Interest income	**196**	281	**191**	275
Interest expense	**561**	616	**559**	616
Net fees and commission	**307**	304	**307**	304

(Expressed in millions of Renminbi unless otherwise stated)

47 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(d) Companies controlled by directors and supervisors other than those under Note 47(b) above

	Group and Bank	
	2009	2008
On balance sheet:		
– Loans and advances	**4,450**	–
– Investments	**157**	370
– Deposits from customers	**18,226**	8,266
Off-balance sheet:		
– Irrevocable guarantee	**2,527**	–
– Irrevocable letters of credit	**239**	–
– Bill of acceptances	**36**	11
Average balance of loans and advances	**4,244**	276
Interest income	**148**	27
Interest expense	**205**	178
Net fees and commission	**19**	–

(e) Investment in associate and jointly controlled entities other than those under Note 47(b) above

	Group and Bank	
	2009	2008
On balance sheet:		
– Loans and advances	**19**	–
– Deposits from customers	**786**	429
Average balance of loans and advances	**20**	–
Interest expense	**4**	4
Net fees and commission	**99**	64

(Expressed in millions of Renminbi unless otherwise stated)

47 MATERIAL RELATED-PARTY TRANSACTIONS *(continued)*

(f) Subsidiaries

	2009	2008
On balance sheet		
– Deposits from customers	**161**	314
– Deposits with other banks	**671**	61
– Placement with other banks	**53**	50
– Investments	**1,320**	–
Interest income	**22**	1
Interest expense	**1**	8

(g) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Executive Officers.

	2009 RMB'000	2008 RMB'000
Salaries and other emoluments	**26,102**	25,572
Discretionary bonuses	**–**	15,766
Share-based payment	**13,291**	2,944
Contributions to defined contribution retirement schemes	**6,484**	3,345
	45,877	47,627

The above share-based payments represent the estimated fair value of the share appreciation rights granted to senior management under the Bank's H-share Appreciation Right Scheme. The fair value is measured by using Black-Scholes model and according to the accounting policy set out in note 2(u)(iii); and the amounts have been charged to the consolidated income statement. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cashflow received/ or to be received by senior management.

48 COMPARATIVE FIGURES

As a result of the changes in accounting policies disclosed in note 2(b) above, certain comparative figures have been adjusted to conform with the current year's presentation. In addition, given that the fair values of unexercised share appreciation rights held by the directors and supervisors were no longer included in the directors' emoluments under notes 8 and 9, corresponding adjustments were made to the comparative figures.

(Expressed in millions of Renminbi unless otherwise stated)

49 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
IFRS 3(Revised), Business combinations	1 July 2009
Amendments to IAS 27, Consolidated and separate financial statements	1 July 2009
Amendments to IAS 39, Financial instruments: Recognition and measurement – Eligible hedged items	1 July 2009
IFRIC 17, Distributions of non-cash assets to owners	1 July 2009
Improvements to IFRSs 2009	1 July 2009 or 1 January 2010
IFRS 9, Financial instruments	1 January 2010

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for IFRS 9, Financial instruments, which may have an impact on the Group's results and financial position arising from changes in the Group's classification and measurement of financial instruments.

50 EVENTS OCCURRED AFTER THE BALANCE SHEET DATE

As approved by the approval document Zheng Jian Xu Ke【2010】No. 257 and No. 215 issued by the CSRC, and Yin Jian Fun【2010】No. 408 issued by the CBRC, the Bank proposed rights issue of A Rights Shares and H Rights Share. Details are as follows:

A share Rights Issue

The Bank proposed rights issue of A Rights Shares on the basis of 1.3 A Rights Shares for every 10 existing A Shares held (involving the entire A share capital of 15,658,890,016 A Shares) to all A shareholders whose names appeared on the register of members of CMB maintained by China Securities Depository and Clearing Corporation Limited, Shanghai Branch as of the Record Date after the close of trading hours on 4 March 2010 on the Shanghai Stock Exchange.

The subscription and payment for the A Rights Shares under the A Share Rights Issue were completed on 11 March 2010. As at the last day for subscription and payment under the Rights Issue (11 March 2010), a total of 2,007,240,869 A Shares were validly subscribed for, representing 98.60% of the total A Shares available for subscription under the A Share Rights Issue (2,035,655,702 A Shares in total) and amounting to RMB17,764,081,690.65. KPMG has issued a verification report (KPMG-D (2010) CR No.0001) to verify whether the capital is in place on 16 March 2010.

H share Rights Issue

As at 29 March 2010, a total of 63,704 valid acceptances and applications in respect of 1,917,294,248 H Rights Shares, representing approximately 426.18% of the total number of H Rights Shares available under the H Share Rights Issue have been received.

Total gross proceeds raised under the A Share Rights Issue and the H Share Rights Issue were RMB17,764,081,690.65 (equivalent of approximately HK$20,197,932,564.70) and HK$4,525,772,680, respectively. All subscription moneys for the Rights Shares have been received by the Bank as at 7 April 2010.

(Expressed in millions of Renminbi unless otherwise stated)

(A) CAPITAL ADEQUACY RATIO

The capital adequacy ratio is prepared in accordance with the guideline "Regulation Governing Capital Adequacy of Commercial Banks" 【Order (2007) No. 11】 issued by the CBRC (the "CBRC guideline") in July 2007, which may differ significantly from the relevant requirements in Hong Kong or other countries.

The capital adequacy ratios and related components of the Group and Bank as at 31 December 2009 and 2008 calculated based on PRC GAAP, were as follows:

	Group		Bank	
	2009	2008	**2009**	2008
Core capital adequacy ratio	**6.63%**	6.56%	**7.36%**	7.15%
Capital adequacy ratio	**10.45%**	11.34%	**10.05%**	10.49%
Components of capital base				
Core capital:				
– Paid up ordinary share capital	**19,119**	14,707	**19,119**	14,707
– Reserves	**69,154**	56,765	**76,868**	64,590
Total core capital	**88,273**	71,472	**95,987**	79,297
Supplementary capital:				
– General provisions for doubtful debts	**16,057**	13,795	**15,859**	13,665
– Term subordinated bonds	**30,000**	30,074	**30,000**	30,700
– Convertible bonds	**–**	2	**–**	2
– Other supplementary capital	**–**	1,745	**–**	1,533
Total supplementary capital	**46,057**	45,616	**45,859**	45,900
Total capital base before deductions	**134,330**	117,088	**141,846**	125,197
Deductions:				
– Goodwill	**9,598**	9,598	**–**	–
– Investments in unconsolidated subsidiary and other long-term investments	**1,168**	1,044	**33,322**	32,668
– Investment in commercial real estate	**2,166**	2,407	**277**	310
Total capital base after deductions	**121,398**	104,039	**108,247**	92,219
Risk weighted assets	**1,161,776**	917,201	**1,076,633**	878,810

(B) LIQUIDITY RATIOS

	2009	2008
Liquidity ratios		
RMB current assets to RMB current liabilities	**34.3%**	47.2%
Foreign currency current assets to foreign currency current liabilities	**66.1%**	99.1%

The above liquidity ratios are calculated in accordance with the formula promulgated by the PBOC and the CBRC and based on PRC GAAP.

(C) CURRENCY CONCENTRATIONS OTHER THAN RMB

	2009			
	US Dollars	**HK Dollars**	**Others**	**Total**
		(in millions of RMB)		
Non-structural position				
Spot assets	**115,323**	**93,395**	**25,292**	**234,010**
Spot liabilities	**(91,386)**	**(92,913)**	**(29,725)**	**(214,024)**
Forward purchases	**72,867**	**12,524**	**10,060**	**95,451**
Forward sales	**(84,977)**	**(5,549)**	**(5,553)**	**(96,079)**
Net option position	**(108)**	**20**	**88**	**–**
Net long position	**11,719**	**7,477**	**162**	**19,358**
Net structural position	**308**	**37,899**	**–**	**38,207**

	2008			
	US Dollars	HK Dollars	Others	Total
		(in millions of RMB)		
Non-structural position				
Spot assets	106,510	74,677	22,122	203,309
Spot liabilities	(94,871)	(71,502)	(23,431)	(189,804)
Forward purchases	45,858	5,035	5,925	56,818
Forward sales	(47,265)	(2,394)	(4,427)	(54,086)
Net option position	(22)	2	20	–
Net long position	10,210	5,818	209	16,237
Net structural position	269	31,693	–	31,962

(Expressed in millions of Renminbi unless otherwise stated)

(C) CURRENCY CONCENTRATIONS OTHER THAN RMB *(continued)*

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

– Investments in fixed assets and premises, net of depreciation charges;

– Capital and statutory reserves of overseas branches; and

– Investments in subsidiaries.

(D) CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within the Mainland China, and regards all claims on third parties outside the Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical areas is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	2009			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding the PRC	**29,607**	**2,742**	**64,042**	**96,391**
– of which attributed to Hong Kong	**12,481**	**2,689**	**57,954**	**73,124**
Europe	**29,545**	**17**	**896**	**30,458**
North and South America	**13,674**	**143**	**5,526**	**19,343**
	72,826	**2,902**	**70,464**	**146,192**

	2008			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	28,876	1,849	55,331	86,056
– of which attributed to Hong Kong	4,352	1,849	54,057	60,258
Europe	39,967	–	444	40,411
North and South America	11,930	348	3,881	16,159
	80,773	2,197	59,656	142,626

(Expressed in millions of Renminbi unless otherwise stated)

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR

Operation in Mainland China

	Group			
	2009		2008	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Manufacturing and processing	**191,890**	**27**	159,565	23
Transportation, storage and postal services	**106,456**	**27**	89,408	24
Wholesale and retail	**75,310**	**48**	56,311	42
Production and supply of electric power, gas and water	**65,797**	**12**	62,364	7
Property development	**63,611**	**63**	44,581	65
Leasing and commercial services	**45,978**	**24**	27,982	28
Water environment and public utilities management	**28,626**	**35**	9,163	40
Construction	**26,027**	**25**	22,969	24
Mining	**19,668**	**14**	14,127	4
Telecommunications, computer services and software	**9,251**	**24**	6,223	21
Others	**24,748**	**19**	22,266	13
Corporate loans	**657,362**	**31**	514,959	26
Discounted bills	**102,549**	**100**	95,766	100
Credit cards	**39,942**	**–**	31,604	–
Mortgages	**263,997**	**99**	148,548	100
Others	**65,076**	**96**	39,493	100
Retail loans	**369,015**	**88**	219,645	86
Gross loans and advances to customers	**1,128,926**	**47**	830,370	50

(Expressed in millions of Renminbi unless otherwise stated)

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Operation in Mainland China *(continued)*

	Bank			
	2009		2008	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Manufacturing and processing	**186,932**	**25**	157,867	22
Transportation, storage and postal services	**105,759**	**26**	88,898	23
Wholesale and retail	**75,170**	**48**	56,301	42
Production and supply of electric power, gas and water	**64,026**	**9**	62,020	7
Property development	**63,239**	**63**	44,411	65
Leasing and commercial services	**45,890**	**24**	27,982	28
Water environment and public utilities management	**28,626**	**35**	9,163	40
Construction	**25,135**	**23**	22,774	23
Mining	**18,917**	**10**	14,127	4
Telecommunication, computer services and software	**9,156**	**24**	6,223	21
Others	**23,965**	**19**	21,991	12
Corporate loans	**646,815**	**30**	511,757	26
Discounted bills	**101,756**	**100**	95,766	100
Credit cards	**39,942**	**–**	31,604	–
Mortgages	**263,852**	**99**	148,452	100
Others	**64,798**	**96**	39,286	100
Retail loans	**368,592**	**88**	219,342	86
Gross loans and advances to customers	**1,117,163**	**46**	826,865	50

(Expressed in millions of Renminbi unless otherwise stated)

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Operation outside Mainland China

	Group			
	2009		2008	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Property development	**26,916**	**59**	19,646	67
Wholesale and retail trade	**4,935**	**42**	1,837	78
Financial concerns	**3,800**	**7**	2,429	12
Transport and transport equipment	**3,125**	**40**	3,002	38
Manufacturing	**2,497**	**25**	1,273	44
Recreational activities	**966**	**1**	97	15
Information technology	**159**	**3**	3	82
Others	**1,636**	**37**	2,715	45
Corporate loans	**44,034**	**47**	31,002	58
Credit cards	**372**	**–**	415	–
Mortgages	**9,662**	**100**	9,964	100
Others	**2,828**	**97**	2,611	97
Retail loans	**12,862**	**96**	12,990	96
Gross loans and advances to customers	**56,896**	**58**	43,992	69

(Expressed in millions of Renminbi unless otherwise stated)

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Operation outside Mainland China *(continued)*

	Bank			
	2009		2008	
	Total	**% of gross loans and advances covered by collateral or other security**	Total	% of gross loans and advances covered by collateral or other security
Property development	**5,376**	**10**	2,822	18
Wholesale and retail trade	**2,573**	**51**	596	90
Transport and transport equipment	**1,815**	**54**	1,493	60
Recreational activities	**940**	**–**	79	–
Financial concerns	**607**	**–**	1,475	–
Manufacturing	**600**	**6**	151	47
Information technology	**155**	**1**	–	–
Others	**294**	**4**	67	35
Corporate loans	**12,360**	**23**	6,683	30
Gross loans and advances to customers	**12,360**	**23**	6,683	30

(Expressed in millions of Renminbi unless otherwise stated)

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to consolidated income statement and impaired loans and advances written off during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are:

	Group					
	2009					
	Overdue loans and advances	**Impaired loans and advances**	**Individually assessed impairment allowance**	**Collectively assessed impairment allowance**	**Impairment losses charged to consolidated income statement during the year**	**Impaired loans and advances written off during the year**
Manufacturing and processing	**2,618**	**2,882**	**1,877**	**3,920**	**1,228**	**312**
Mortgages	**2,517**	**383**	**476**	**2,392**	**769**	**–**

	Group					
	2008					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated income statement during the year	Impaired loans and advances written off during the year
Manufacturing and processing	2,797	2,650	2,004	3,627	914	333
Transportation, storage and postal Services	636	509	484	1,852	23	51
Mortgages	4,214	411	–	1,624	119	5

(Expressed in millions of Renminbi unless otherwise stated)

(E) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to income statement and impaired loans and advances written off during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are: *(continued)*

	Bank					
	2009					
	Overdue loans and advances	**Impaired loans and advances**	**Individually assessed impairment allowance**	**Collectively assessed impairment allowance**	**Impairment losses charged to income statement during the year**	**Impaired loans and advances written off during the year**
Manufacturing and processing	**2,579**	**2,866**	**1,863**	**3,864**	**1,225**	**300**
Mortgages	**1,995**	**374**	**–**	**2,381**	**765**	**–**

	Bank					
	2008					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to income statement during the year	Impaired loans and advances written off during the year
Manufacturing and processing	2,741	2,627	1,984	3,600	890	328
Transportation, storage and postal Services	611	509	484	1,844	18	51
Mortgages	3,616	396	–	1,615	118	5

(Expressed in millions of Renminbi unless otherwise stated)

(F) OVERDUE LOANS AND ADVANCES TO CUSTOMERS

(i) By geographical segments

	2009	2008
Eastern China	3,106	2,317
Southern and Central China	3,177	3,469
Western China	1,154	1,444
Northern China	838	856
Others	115	133
	8,390	8,219

(ii) By overdue period

	2009	2008
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months	743	710
– between 6 and 12 months	1,372	882
– over 12 months	6,275	6,627
Total	8,390	8,219
As a percentage of total gross loans and advances:		
– between 3 and 6 months	0.06%	0.08%
– between 6 and 12 months	0.12%	0.10%
– over 12 months	0.53%	0.76%
Total	0.71%	0.94%

(iii) Collateral information

	2009	2008 (restated)
Secured portion of overdue loans and advances	1,360	1,155
Unsecured portion of overdue loans and advances	7,030	7,064
Value of collaterals held against overdue loans and advances	1,536	1,188
Provision of overdue loans and advances for which impairment losses are individually assessed	5,265	5,905

(Expressed in millions of Renminbi unless otherwise stated)

(G) OVERDUE LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

(i) By geographical segments

	2009	2008
Northern China	6	7

(ii) By overdue period

	2009	2008
Gross loans and advances to financial institutions which have been overdue with respect to either principal or interest for period of		
– between 3 and 6 months	–	1
– between 6 and 12 months	–	3
– over 12 months	6	3
Total	6	7
As a percentage of total gross loans and advances		
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	–	–
Total	–	–

(iii) Collateral information

	2009	2008
Secured portion of overdue loans and advances	–	–
Unsecured portion of overdue loans and advances	6	7
Value of collaterals held against overdue loans and advances	–	–
Provision of overdue loans and advances for which impairment losses are individually assessed	4	4

Note: The above analysis, (F) and (G), includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collaterals of the Group included cash deposit, shares, land use right, property, motor vehicles and equipment, etc. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

(Expressed in millions of Renminbi unless otherwise stated)

(H) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	2009		2008	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	**1,569**	**0.13%**	1,426	0.16%
Less:				
– rescheduled loans and advances but overdue more than 90 days	**899**	**0.08%**	1,009	0.12%
Rescheduled loans and advances overdue less than 90 days	**670**	**0.06%**	417	0.05%

There were no rescheduled loans and advances to financial institutions as at 31 December 2009 and 2008.

(I) NON-BANK MAINLAND EXPOSURES

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 31 December 2009 and 31 December 2008, over 90% of the Bank's exposures arose from businesses with Mainland entities or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

(J) CORPORATE GOVERNANCE

Board committees

The board of directors has established six committees including the Strategy Committee, Audit committee, Related-party transaction control committee, Risk Management Committee, Remuneration and Appraisal Committee and Nomination Committee.

(i) Strategy Committee

Main authorities and duties of the Executive Committee are:

– to propose operation objective and medium to long term development plan;

– to regularly review and monitor the execution status of annual operating plan and investment plan;

– to examine and monitor the status of carrying out the decision of board; and

– to propose the suggestion and scheme of significant issues which should be discussed and determined by board.

(J) CORPORATE GOVERNANCE *(continued)*

Board committees *(continued)*

(ii) Audit Committee

Main authorities and duties of the Audit Committee are:

– to propose the appointment or replacement of external auditors;

– to monitor the internal audit system of the Bank and its implementation;

– to coordinate communication between internal auditors and external auditors;

– to review the financial information of the Bank and its disclosure;

– to examine the internal control system of the Bank; and

– other matters that authorized by board.

(iii) Related-Party Transaction Control Committee

Main authorities and duties of the Related-Party Transaction Control Committee are:

– to identify the related parties of the Bank according to the laws and regulations;

– to inspect, monitor and review material related parties transactions and continuing related parties transactions and control the risk arise;

– to review the rules governing related parties transaction and relevant system of controls; and

– to review the disclosure of related parties transaction of the Bank.

(iv) Risk Management Committee

Main authorities and duties of the Risk Management Committee are:

– to monitor the risk control of the Bank's exposures to credit, market and operational, etc. by senior management;

– to conduct regular assessment of the risk position of the Bank and evaluate the working procedures and results of internal audit departments;

– to put forward proposals on the improvement of the risk management and internal control of the Bank; and

– Other matters that authorized by board.

(J) CORPORATE GOVERNANCE *(continued)*

Board committees *(continued)*

(v) Remuneration and Appraisal Committee

Main authorities and duties of the Remuneration and Appraisal Committee are:

- to study and propose standards for appraising directors and senior management, conduct appraisals and provide advices based on the actual situation of the Bank;
- to study and review the remuneration policy and plans for directors and senior management; and
- Other matters that authorized by board.

(vi) Nomination Committees

Main authorities and duties of the Nomination Committee are:

- to put forward proposals to the board on the size and composition of the board according to the business operations, asset scale and shareholding structure of the Bank;
- to study the standards and procedures for the election of directors and senior management, and propose suggestion to the board;
- to conduct extensive searches for qualified candidates as directors and senior management;
- to make preliminary examination on the qualifications of the candidates for directors and senior management and put forward proposals; and
- Other matters that authorized by board.

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