中国民生银行
CHINA MINSHENG BANKING CORP., LTD.

# 中 國 民 生 銀 行 股 份 有 限 公 司
# CHINA MINSHENG BANKING CORP., LTD.*

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

(Stock Code: 01988)

# Results Announcement For The Year Ended 31 December, 2009

## FINANCIAL HIGHLIGHTS

- For the year ended 31 December, 2009, total assets of the Group amounted to RMB1,426,392 million, representing an increase of 35.3% over last year
- For the year ended 31 December, 2009, revenue of the Group amounted to RMB42,037 million, representing an increase of 20.2% over last year
- For the year ended 31 December, 2009, the equity attributable to the equity holders of the Company amounted to RMB88,034 million, representing an increase of 63.4% over last year
- For the year ended 31 December, 2009, earnings per share amounted to RMB0.63, representing an increase of RMB0.21 over last year

The board of directors (the "Board") of China Minsheng Banking Corp., Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December, 2009. The results were prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements under the Hong Kong Companies Ordinance.

# IMPORTANT NOTICE

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

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

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

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

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

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

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

# BANK PROFILE

| | | |
|---|---|---|
| 1. | Registered Chinese Name: | 中國民生銀行股份有限公司<br>(Abbreviation: "中國民生銀行") |
| | English Name: | CHINA MINSHENG BANKING CORP., LTD.<br>(Abbreviation: "CMBC") |
| 2. | Legal Representative: | Dong Wenbiao |
| 3. | Authorized Representatives: | Andrew Wong<br>Soon Yuk Tai |
| 4. | Board Secretary: | Mao Xiaofeng |
| | Joint Company Secretaries: | Mao Xiaofeng<br>Soon Yuk Tai |
| | Representative of Securities Affairs: | He Qun |
| 5. | Mailing Address: | Building VIII, Beijing Friendship Hotel,<br>No. 1 Zhongguancun Nandajie, Beijing, China |
| | Telephone: | 86-10-68946790 |
| | Facsimile: | 86-10-68466796 |
| | Email: | cmbc@cmbc.com.cn |

# FINANCIAL SUMMARY

## I. Financial Data

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

## II. Financial Ratio

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

*Note:* 1. Return on average shareholders' equity = net profit attributable to the Bank for the period/average balance of equity attributable to the Bank at the beginning and the end of the period

2. Net interest spread = Average return on total interest-earning assets – average cost on total interest-bearing liabilities

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

4. Cost-to-income ratio = (Operating and administrative expenses – tax and surcharge)/operating income

## III. Five-year Financial Summary

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

# CONSOLIDATED INCOME STATEMENT

*(All amounts in RMB millions unless otherwise stated)*

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*(All amounts in RMB millions unless otherwise stated)*

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*(All amounts in RMB millions unless otherwise stated)*

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

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

# STATEMENT OF FINANCIAL POSITION

*(All amounts in RMB millions unless otherwise stated)*

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

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(All amounts in RMB millions unless otherwise stated)*

| | Attributable to the equity holders of the Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserve | Surplus reserve | General reserve | Retained earnings | Reserve for fair value changes of available-for-sale securities | Non-controlling interests | Total equity |
| **Balance at 1 January, 2009** | **18,823** | **14,768** | **2,983** | **8,001** | **6,009** | **3,296** | **792** | **54,672** |
| Comprehensive income | **—** | **—** | **—** | **—** | **12,104** | **(3,190)** | **4** | **8,918** |
| Issue of ordinary shares | **3,439** | **23,311** | **—** | **—** | **—** | **—** | **65** | **26,815** |
| Appropriation to surplus reserve | **—** | **—** | **1,201** | **—** | **(1,201)** | **—** | **—** | **—** |
| Appropriation to general reserve | **—** | **—** | **—** | **2,903** | **(2,903)** | **—** | **—** | **—** |
| Cash dividends relating to 2008 | **—** | **—** | **—** | **—** | **(1,506)** | **—** | **—** | **(1,506)** |
| Stock dividends relating to 2008 | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| Others | **—** | **(4)** | **—** | **—** | **—** | **—** | **(1)** | **(5)** |
| **Balance at 31 December, 2009** | **22,262** | **38,075** | **4,184** | **10,904** | **12,503** | **106** | **860** | **88,894** |
| **Balance at 1 January, 2008** | 14,479 | 16,200 | 2,200 | 5,800 | 4,728 | 6,780 | — | 50,187 |
| Comprehensive income | — | — | — | — | 7,885 | (3,484) | 8 | 4,409 |
| Issue of ordinary shares | — | — | — | — | — | — | 780 | 780 |
| Shares issued from capital reserve | 1,448 | (1,448) | — | — | — | — | — | — |
| Appropriation to surplus reserve | — | — | 783 | — | (783) | — | — | — |
| Appropriation to general reserve | — | — | — | 2,201 | (2,201) | — | — | — |
| Cash dividends relating to 2007 | — | — | — | — | (724) | — | — | (724) |
| Stock dividends relating to 2007 | 2,896 | — | — | — | (2,896) | — | — | — |
| Others | — | 16 | — | — | — | — | 4 | 20 |
| **Balance at 31 December, 2008** | 18,823 | 14,768 | 2,983 | 8,001 | 6,009 | 3,296 | 792 | 54,672 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*(All amounts in RMB millions unless otherwise stated)*

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

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

*(All amounts in RMB millions unless otherwise stated)*

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### (1) Basis of preparation

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

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

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

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

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

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

- Amendments to IFRS 7, Financial instruments: Disclosures

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

- IFRS 8, Operating segments

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

- IAS 1 (revised), Presentation of financial statements

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

- IAS 23, Borrowing costs

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

- IFRIC 13, Customer loyalty programmes

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

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

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

b *Standards and interpretations issued but not yet effective*

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

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

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

c *Early adoption of standards*

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

**(2) Segment reporting**

The Group determines its operating segments on the basis of its internal organizational structure, management requirements and internal reporting practices, and determines its reporting segments and disclose segment information on the basis of operating segments.

An operating segment is a component of the Group that meets all the following requirements: (a) it engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the enterprise; (b) its operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance; and (c) discrete financial information, operating results and relevant accounting information, including cash flows, are available. If two or more operating segments have similar economic characteristics and meet certain conditions, they are aggregated into one operating segment.

The reports on an operating segment are consistent with those internal reports submitted to the chief operating decision maker. The chief operating decision maker responsible for allocating resources to and assessing performance of operating segments is determined to be the chief executive officer and special governance committee members who make strategic decisions.

**(3) Comparative Figures**

Where necessary, the comparative figures have been reclassified to conform to the presentation of the current period.

In the Group's consolidated statement of cash flows, the RMB2.6 billion of borrowing from other financial institution by the Bank's subsidiary, Minsheng Financial Leasing Co., Ltd, to meet its normal operation needs has been reclassified from "Cash received from other financing activities" to "Net increase in other liabilities of the operating activities". This reclassification does not affect the operating results and overall financial position of the Group and the Bank during the comparative periods.

## 2 SEGMENT INFORMATION

The Group manage business from geographic and business respective. The geographic segment can be divided four region, Northern china, Eastern china, Southern china, Other locations. The business segment can be divided four line, Corporate banking business, Retail banking business, Treasury business, Other business and unallocated.

Segment assets, liabilities, revenues, operating results and capital expenditures are based on the Group's accounting policies as the basis for measurement. The item of segment include directly attributable to the segment and can be based on reasonable criteria related to the segment assigned to the item. As part of the management of assets and liabilities, the Group's capital resource and exert are allocated to various business segment through treasury business. The Group's FTP mechanism to deposit and loan interest rates and market interest rates as the benchmark, determined FTP with reference to different products and their period, the impact of insider trading have been offset when prepare consolidated statements.

The geographic segments can be divided into four main regions: Northern China, Eastern China, Southern China, Other locations.

(1) Northern China — Including Minsheng Financial Leasing Co., Ltd, the Headquarters in Beijing as well as the following branches: Beijing, Taiyuan, Shijiazhuang and Tianjin;

(2) Eastern China — Including Cixi Minsheng Township Bank Co., Ltd, Songjiang Minsheng Township Bank Co., Ltd. and the following branches: Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei and Nanchang;

(3) Southern China — Including Minsheng Royal Fund Management Co., Ltd and the following branches: Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou and Xiamen;

(4) Other locations — Including Pengzhou Minsheng Township Bank Co., Ltd. and the following branches: Xi'an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou and Changchun.

**Group**

| **2009** | **Northern China** | **Eastern China** | **Southern China** | **Other locations** | **Inter-segment elimination** | **Total** |
|---|---|---|---|---|---|---|
| External Interest income | **13,133** | **9,391** | **3,238** | **6,478** | **—** | **32,240** |
| Inter-segment Interest (expense)/ income | **(2,366)** | **1,157** | **1,075** | **134** | **—** | **—** |
| Net interest income | **10,767** | **10,548** | **4,313** | **6,612** | **—** | **32,240** |
| Fee and commission income | **3,287** | **888** | **479** | **352** | **—** | **5,006** |
| Fee and commission expense | **(174)** | **(70)** | **(64)** | **(34)** | **—** | **(342)** |
| Net fee and commission income | **3,113** | **818** | **415** | **318** | **—** | **4,664** |
| Operating expense | **(10,441)** | **(4,930)** | **(2,392)** | **(2,776)** | **—** | **(20,539)** |
| Impairment losses on assets | **(2,865)** | **(1,519)** | **(132)** | **(791)** | **—** | **(5,307)** |
| Net other income | **4,932** | **(139)** | **(73)** | **(122)** | **—** | **4,598** |
| Total profit | **5,506** | **4,778** | **2,131** | **3,241** | **—** | **15,656** |
| **As at 31 December, 2009** | | | | | | |
| Segment assets | **925,604** | **482,244** | **205,114** | **251,198** | **(440,949)** | **1,423,211** |
| Unallocated | | | | | | **3,181** |
| Total assets | | | | | | **1,426,392** |
| Segment liabilities | **(856,680)** | **(474,174)** | **(201,491)** | **(246,102)** | **440,949** | **(1,337,498)** |
| Depreciation and amortization | **289** | **183** | **120** | **129** | **—** | **721** |
| Capital expenditure | **4,177** | **290** | **143** | **217** | **—** | **4,827** |
| Credit commitments | **70,505** | **116,493** | **34,218** | **91,857** | **—** | **313,073** |

**Group**

| 2008 | Northern China | Eastern China | Southern China | Other locations | Inter-segment elimination | Total |
|---|---|---|---|---|---|---|
| External Interest income | 11,648 | 8,506 | 5,020 | 5,206 | — | 30,380 |
| Inter-segment Interest (expense)/ income | (3,755) | 2,157 | 1,083 | 515 | — | — |
| Net interest income | 7,893 | 10,663 | 6,103 | 5,721 | — | 30,380 |
| Fee and commission income | 3,196 | 870 | 355 | 334 | — | 4,755 |
| Fee and commission expense | (129) | (50) | (69) | (46) | — | (294) |
| Net fee and commission income | 3,067 | 820 | 286 | 288 | — | 4,461 |
| Operating expense | (6,530) | (5,406) | (2,982) | (2,899) | — | (17,817) |
| Impairment losses on assets | (3,929) | (900) | (595) | (1,094) | — | (6,518) |
| Net other income | (50) | (49) | 87 | (6) | — | (18) |
| Total profit | 451 | 5,128 | 2,899 | 2,010 | — | 10,488 |
| **As at 31 December, 2008** | | | | | | |
| Segment assets | 671,727 | 335,333 | 163,954 | 170,199 | (287,942) | 1,053,271 |
| Unallocated | | | | | | 1,079 |
| Total assets | | | | | | 1,054,350 |
| Segment liabilities | (633,845) | (327,846) | (159,454) | (166,475) | 287,942 | (999,678) |
| Depreciation and amortization | 293 | 156 | 124 | 105 | — | 678 |
| Capital expenditure | 902 | 503 | 20 | 336 | — | 1,761 |
| Credit commitments | 82,193 | 92,831 | 25,302 | 36,573 | — | 236,899 |

In the financial year 2009, segment reporting by the Group was prepared for the first time in accordance with IFRS 8, 'Operating segments'.

Segment information for 2008 that is reported as comparative information for 2009 has been restated to conform to the requirements of IFRS 8.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group senior management, which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The business segments can be divided into four lines: Corporate banking business, Retail banking business, Treasury business and Other business.

Corporate banking — for corporate customers, government agencies and financial institutions. These products and services include current accounts, deposits, overdrafts, loans, hosting, trade-related products and other credit services, foreign currency and derivative products.

Retail banking — providing banking products and services for individual clients. These products and services include current accounts, savings deposits, investment savings products, credit cards and debit cards, consumer credit and mortgage loans.

Treasury business — including foreign exchange trading, foreign exchange derivatives transactions, money market transactions, self-support trade, as well as asset-liability management. The business segment's operating results include foreign currency profit and the affect of the profit and loss which generated from internal fund surplus or shortage from interest-bearing assets and interest-bearing liabilities.

Other business — the Group's other businesses including the Group's investments and any other business which is not reported separately in report.

As the Group's segment operations are all financial with the total revenues deriving from interest and the Group senior management relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group senior management is measured in a manner consistent with that in the consolidated income statement.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. As the Group senior management reviews operating profit, the results of discontinued operations are not included in the measure of operating profit. Non-recurring gains and losses should be allocated to other business lines.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Group Senior management.

Segment assets and liabilities comprise operating assets and liabilities, being the total of the consolidated statement of financial position.

The segment information by business type provided to senior management are as follows:

**Group**

| 2009 | Corporate banking business | Retail banking business | Treasury business | Other business and unallocated | Elimination | Total |
|---|---|---|---|---|---|---|
| Net interest income | **19,012** | **4,307** | **8,921** | **—** | **—** | **32,240** |
| Include: intersegment net interest income | **(3,038)** | **490** | **2,548** | **—** | **—** | **—** |
| Net fee and commission income | **3,037** | **1,291** | **336** | **—** | **—** | **4,664** |
| Include: intersegment net fee and commission income | **—** | **—** | **—** | **—** | **—** | **—** |
| Operating expense | **(12,561)** | **(3,032)** | **(4,946)** | **—** | **—** | **(20,539)** |
| Impairment losses on assets | **(4,415)** | **(582)** | **(302)** | **(8)** | **—** | **(5,307)** |
| Net other income | **(379)** | **(4)** | **9** | **4,972** | **—** | **4,598** |
| Total profit | **4,694** | **1,980** | **4,018** | **4,964** | **—** | **15,656** |
| **As at 31 December, 2009** | | | | | | |
| Segment assets | **640,504** | **166,844** | **550,413** | **65,450** | **—** | **1,423,211** |
| Unallocated | | | | | | **3,181** |
| Total assets | | | | | | **1,426,392** |
| Segment liabilities | **(928,721)** | **(194,513)** | **(205,286)** | **(8,978)** | **—** | **(1,337,498)** |

**Group**

| 2008 | Corporate banking business | Retail banking business | Treasury business | Other business and unallocated | Elimination | Total |
|---|---|---|---|---|---|---|
| Net interest income | 17,581 | 4,861 | 8,138 | — | — | 30,380 |
| Include: intersegment net interest income | (1,162) | (200) | 1,362 | — | — | — |
| Net fee and commission income | 2,925 | 975 | 561 | — | — | 4,461 |
| Include: intersegment net fee and commission income | — | — | — | — | — | — |
| Operating expense | (10,788) | (2,670) | (4,359) | — | — | (17,817) |
| Impairment losses on assets | (5,143) | (569) | (810) | 4 | — | (6,518) |
| Net other income | (73) | (1) | (42) | 98 | — | (18) |
| Total profit | 4,502 | 2,396 | 3,488 | 102 | — | 10,488 |
| **As at 31 December, 2008** | | | | | | |
| Segment assets | 515,661 | 113,970 | 377,107 | 46,533 | — | 1,053,271 |
| Unallocated | | | | | | 1,079 |
| Total assets | | | | | | 1,054,350 |
| Segment liabilities | (735,705) | (135,442) | (123,348) | (5,183) | — | (999,678) |

## 3 NET INTEREST INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| **Interest income:** | | |
| — Loans and advances to customers | | |
| — Loans to corporate entities | **33,747** | 34,266 |
| — Loans to individuals | **6,737** | 7,316 |
| — Loans to discounted bills | **2,676** | 2,851 |
| — Investment securities | **5,478** | 5,451 |
| — Balances with central banks | **1,941** | 2,216 |
| — Placements with banks and other financial institutions | **1,767** | 3,784 |
| — Finance lease receivables | **745** | 189 |
| — Due from banks and other financial institutions | **310** | 216 |
| — Others | **40** | 22 |
| | **53,441** | 56,311 |
| **Interest expense:** | | |
| — Deposits from customers | **(16,060)** | (18,428) |
| — Due to and placements from banks and other financial institutions | **(3,597)** | (6,045) |
| — Debt securities in issue | **(1,315)** | (1,410) |
| — Borrowings from banks and other financial institutions | **(221)** | (46) |
| — Others | **(8)** | (2) |
| | **(21,201)** | (25,931) |
| **Net interest income** | **32,240** | 30,380 |
| **Included within interest income:** | | |
| Interest income on listed investments | **4,047** | 3,247 |
| Interest income on unlisted investments | **1,431** | 2,204 |
| Interest income accrual on identified impaired financial assets | **178** | 164 |

## 4 FEE AND COMMISSION INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Financial advisory services | **1,577** | 1,702 |
| Bank card services | **1,207** | 920 |
| Credit commitments | **926** | 917 |
| Trust and other fiduciary services | **633** | 603 |
| Settlement services | **299** | 312 |
| Securities underwriting services | **135** | 139 |
| Others | **229** | 162 |
| Total | **5,006** | 4,755 |

## 5 NET TRADING INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Gain/(loss) on exchange rate instruments | **177** | (111) |
| Gain/(loss) on precious metal and other products | **98** | (131) |
| (Loss)/gain on interest rate instruments | **(51)** | 427 |
| Total | **224** | 185 |

## 6 NET GAIN/(LOSS) ON DISPOSAL OF AVAILABLE-FOR-SALE SECURITIES

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Net gain on disposal of Haitong securities | **4,902** | — |
| Others | **7** | (53) |
| Total | **4,909** | (53) |

In 2009, the Bank disposed of its equity securities of Haitong Securities Co., Ltd ("Haitong Securities"). The balance of equity securities of Haitong Securities held by the Bank was RMB3.09 billion as at 31 December, 2008. Net gain of RMB4.90 billion was recognized in the consolidated income statement of 2009.

## 7 IMPAIRMENT LOSSES ON ASSETS

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Loans and advances to customers | **4,792** | 5,686 |
| Available-for-sale securities | **356** | 599 |
| Finance lease receivables | **176** | 57 |
| Held-to-maturity securities | **(54)** | 54 |
| Others | **37** | 122 |
| Total | **5,307** | 6,518 |

## 8 OPERATING EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Staff costs, including directors' emoluments | | |
| — Salary, including bonus | **6,658** | 5,707 |
| — Social insurance | **1,058** | 913 |
| — Other benefits | **1,428** | 1,330 |
| Business tax and surcharges | **2,802** | 2,916 |
| Business development expenses | **1,634** | 1,295 |
| Office expenses | **1,578** | 904 |
| Lease expense, primarily for office | **983** | 824 |
| Depreciation and amortization | **721** | 678 |
| Electronic equipment operating expenses | **705** | 432 |
| Automobile expenses | **564** | 572 |
| Mailing and telegraph expenses | **332** | 353 |
| Travelling expenses | **291** | 244 |
| Conference expenses | **225** | 219 |
| CBRC supervisory charges | **138** | 134 |
| Others | **1,422** | 1,296 |
| Total | **20,539** | 17,817 |

Auditors' remuneration included in the operating expenses as for the year ended 31 December, 2009 was RMB6.60 million (2008: RMB7.12 million).

## 9 DIRECTORS AND SUPERVISORS' EMOLUMENTS

**For the year ended 31 December, 2009 (in thousand of RMB)**

| | Basic salaries, allowances and benefits | Contributions to pension schemes | Discretionary bonus | Total |
|---|---|---|---|---|
| Dong Wenbiao | 3,846 | 270 | 2,430 | 6,546 |
| Hong Qi | 3,459 | 209 | 2,601 | 6,269 |
| Qiao Zhimin | 3,308 | 209 | 2,267 | 5,784 |
| Huang Diyan**** | 233 | — | 4,770 | 5,003 |
| Liang Yutang | 2,757 | 209 | 1,911 | 4,877 |
| Chen Jinzhong | 1,989 | 128 | 1,747 | 3,864 |
| Wang Lei | 1,985 | 133 | 1,589 | 3,707 |
| Wang Tongshi** | 1,152 | — | 1,376 | 2,528 |
| Wang Lianzhang | 1,120 | — | — | 1,120 |
| Wang Songqi | 925 | — | — | 925 |
| Lu Zhiqiang | 865 | — | — | 865 |
| Zhang Hongwei | 860 | — | — | 860 |
| Wang Hang | 820 | — | — | 820 |
| Zhang Ke** | 808 | — | — | 808 |
| Huang Xi | 777 | — | — | 777 |
| Xing Jijun | 762 | — | — | 762 |
| Wang Yugui | 760 | — | — | 760 |
| Shi Yuzhu | 710 | — | — | 710 |
| Chen Jian | 690 | — | — | 690 |
| Xu Rui | 685 | — | — | 685 |
| Wang Liang | 667 | — | — | 667 |
| Lu Zhongnan | 660 | — | — | 660 |
| Gao Shangquan** | 652 | — | — | 652 |
| Zhang Disheng | 622 | — | — | 622 |
| Liu Yonghao*** | 612 | — | — | 612 |
| Wang Junhui*** | 565 | — | — | 565 |
| Qin Rongsheng*** | 230 | — | — | 230 |
| Wu Zhipan** | 220 | — | — | 220 |
| Han Jianmin*** | 215 | — | — | 215 |
| Wang Lihua*** | 197 | — | — | 197 |
| Su Qingzan** | 195 | — | — | 195 |
| Li Yu**** | 185 | — | — | 185 |
| Liang Jinquan* | — | — | — | — |

* Liang Jinquan waived emoluments for the year ended 31 December, 2009.

** Zhang Ke, Gao Shangquan, Su Qingzan, Wu Zhipan and Wang Tongshi were no longer the directors at 31 December, 2009.

*** Liu Yonghao, Wang Juhui, Wang Lihua, Qin Rongsheng and Han Jianmin were the new directors in 2009.

**** Li Yu and Huang Diyan were not the supervisors at 31 December, 2009.

**For the year ended 31 December, 2008 (in thousand of RMB)**

| | **Basic salaries, allowances and benefits** | **Contributions to pension schemes** | **Discretionary bonus** | **Total** |
|---|---|---|---|---|
| Dong Wenbiao | 3,249 | 23 | 8,094 | 11,366 |
| Wang Tongshi | 2,858 | 52 | 6,132 | 9,042 |
| Hong Qi | 2,800 | 23 | 5,716 | 8,539 |
| Zhang Ke | 723 | — | — | 723 |
| Zhang Hongwei | 692 | — | — | 692 |
| Lu Zhiqiang | 692 | — | — | 692 |
| Wang Lianzhang | 664 | — | — | 664 |
| Wu Zhipan | 641 | — | — | 641 |
| Wang Songqi | 638 | — | — | 638 |
| Gao Shangquan | 617 | — | — | 617 |
| Wang Hang | 613 | — | — | 613 |
| Wang Yugui | 588 | — | — | 588 |
| Shi Yuzhu | 588 | — | — | 588 |
| Su Qingzan | 588 | — | — | 588 |
| Xing Jijun | 584 | — | — | 584 |
| Huang Xi | 559 | — | — | 559 |
| Chen Jian | 559 | — | — | 559 |
| Liang Jinquan* | — | — | — | — |
| Lu Zhongnan | 578 | — | — | 578 |
| Zhang Disheng | 584 | — | — | 584 |
| Xu Rui | 614 | — | — | 614 |
| Li Yu | 629 | — | — | 629 |
| Wang Liang | 600 | — | — | 600 |
| Huang Diyan | 102 | — | — | 102 |
| Qiao Zhimin | 590 | — | — | 590 |
| Wang Lei | 411 | — | — | 411 |
| Chen Jinzhong | 422 | — | — | 422 |

* Liang Jinquan waived emoluments for the year ended 31 December, 2008.

The 5 highest-paid individuals of the Group in the current year are all members of the board of directors or supervisors (2008: 3), as shown in the above table, and they have no one who is not a member of the board of directors or the supervisory board (2008: 2), as shown below:

| | **Year ended 31 December** | |
|---|---|---|
| | **2009** | 2008 |
| Basic salaries, allowances and benefits | — | 3,070 |
| Contributions to pension schemes | — | 16 |
| Discretionary bonus | — | 8,676 |
| Total | — | 11,762 |

Emoluments of the individuals were the following bands:

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| RMB1 to 2 million | **—** | — |
| RMB2 to 3 million | **—** | — |
| RMB3 to 4 million | **—** | — |
| RMB5 to 6 million | **—** | 2 |
| RMB6 to 7 million | **—** | — |
| RMB7 to 8 million | **—** | — |
| RMB8 to 9 million | **—** | — |
| RMB9 to 10 million | **—** | — |
| RMB10 to 11 million | **—** | — |
| RMB11 to 12 million | **—** | — |
| RMB17 to 18 million | **—** | — |

The Group had not paid any emoluments to the directors or supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 10 INCOME TAX EXPENSE

Taxation in the consolidated income statement represents mainland Chinese income tax:

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Current taxes on income for the reporting period | **4,607** | 3,577 |
| Current taxes referring to previous periods* | **(12)** | 233 |
| Total current tax | **4,595** | 3,810 |
| Total deferred tax | **(1,047)** | (1,215) |
| Income tax expense | **3,548** | 2,595 |

The applicable income tax rate (except for Shenzhen branch) is 25% as at 31 December, 2009 (2008: 25%). For Shenzhen branch, the applicable income tax rate is 20% as at 31 December, 2009 (2008: 18%).

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate of the Group as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Profit before income tax | **15,656** | 10,488 |
| Income tax calculated at 25% | **3,914** | 2,622 |
| Impact of different rates of different districts | **(7)** | (26) |
| Income tax calculated at standard rates | **3,907** | 2,596 |
| Tax exemption on interest income from government bonds | **(449)** | (419) |
| Non-deductible salary, entertainment and other expenses* | **111** | 371 |
| Others | **(21)** | 47 |
| Income tax expense | **3,548** | 2,595 |

* In June, 2008, the State Administration of Taxation issued additional provisions on the criteria for the deduction of performance-based salaries, resulting in lower deductible amounts and an increase of RMB263 million of income tax expense for the Bank, which is included in 2008 consolidated income statement.

## 11 EARNINGS PER SHARE

### (1) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Profit attributable to equity holders of the Bank | **12,104** | 7,885 |
| Weighted average number of ordinary shares in issue *(in millions)* | **19,144** | 18,823 |
| Basic earnings per share *(in RMB)* | **0.63** | 0.42 |

### (2) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares for the effect of all dilutive potential ordinary shares of the Bank, which are in the form of convertible debt. The convertible debt is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect.

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Profit attributable to equity holders of the Bank | **12,104** | 7,885 |
| Weighted average number of ordinary shares in issue | **19,144** | 18,823 |
| Diluted earnings per share *(in RMB)* | **0.63** | 0.42 |

The number of shares assuming the conversion of all the convertible bonds convert into ordinary shares was 49,784 at the beginning of 2008, which was insignificant. The convertible option expired on 26 February, 2008, and the Bank didn't issue other convertible bonds afterwards. The diluted earnings per share was equal to basic earnings per share.

## 12 CASH AND DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

**Group**

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Cash | **4,464** | 2,900 |
| Due from banks and other financial institutions | | |
| — Due from banks | **59,948** | 13,930 |
| — Due from other financial institutions | **1,900** | 818 |
| | **66,312** | 17,648 |

**Bank**

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Cash | **3,239** | 2,898 |
| Due from banks and other financial institutions | | |
| — Due from banks | **59,941** | 13,914 |
| — Due from other financial institutions | **1,900** | 818 |
| | **65,080** | 17,630 |

## 13 BALANCES WITH CENTRAL BANKS

**Group**

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Restricted deposits | **122,610** | 84,457 |
| Unrestricted deposits | **98,980** | 97,421 |
| | **221,590** | 181,878 |

**Bank**

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Restricted deposits | **122,534** | 84,453 |
| Unrestricted deposits | **98,971** | 97,421 |
| | **221,505** | 181,874 |

Restricted deposits are general reserve balance with central banks. The Group was required to maintain with the PBOC a restricted general reserve deposit equal to 13.5% of RMB deposits and 5% of foreign currency deposits as at 31 December, 2009 (2008: 13.5% of RMB deposits and 5% of foreign currency deposits). Unrestricted deposits are maintained with the PBOC for liquidity purposes.

Restricted balance with central banks are not available for use in the Group's day-to-day operations.

## 14 TRADING FINANCIAL ASSETS

**Group and Bank**

| | 31 December **2009** | 2008 |
|---|---|---|
| Government and quasi-government bonds | **2,870** | 3,069 |
| Corporate bonds | **1,877** | 1,336 |
| Total | **4,747** | 4,405 |

All of above bond investments are listed.

Trading financial assets pledged as collateral under repurchase agreements signed with other banks and other financial institutions as at 31 December, 2009 amounted to RMB2.03 billion (2008: RMB2.05 billion).

## 15 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative financial instruments are held by the Group for trading purposes:

Foreign exchange forwards represent commitments to purchase/sell foreign currencies at a future date, including undelivered spot transactions.

Interest rate and currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (e.g. fixed rate for floating rate).

The credit risk faced by the Group arising from derivative financial products means, if a counterparty fails to fulfill its obligation, the cost of replacement of the original contract with an additional commitment. The Group controls this risk by monitoring the nominal amount of contracts, fair value and the ability to convert to cash on a continuous basis. In order to control the level of credit risk, the Group uses similar method adopted in its credit business to measure the extent of credit exposure.

The contractual/notional amounts of financial instruments serve only as a basis for comparison with fair value instruments recognized on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative financial instruments held are set out in the following table:

| | Contract/notional Amount | Fair values Assets | Liabilities |
|---|---|---|---|
| **Group and Bank** | | | |
| **31 December, 2009** | | | |
| Interest rate swaps | 16,393 | 312 | (263) |
| Currency forwards | 14,888 | 111 | (105) |
| Currency swaps | 3,764 | 42 | (3) |
| Precious metal swaps | 422 | — | (23) |
| Credit default swaps | 68 | — | (1) |
| Extension options | 9,700 | — | — |
| | | 465 | (395) |
| **Group and Bank** | | | |
| **31 December, 2008** | | | |
| Interest rate swaps | 17,711 | 987 | (969) |
| Currency forwards | 11,498 | 211 | (266) |
| Currency swaps | 1,531 | 18 | — |
| Precious metal swaps | 163 | — | — |
| Credit default swaps | 68 | — | (4) |
| Extension options | 9,015 | — | — |
| | | 1,216 | (1,239) |

Replacement costs are the costs of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations). The replacement costs of the Group and the Bank are equal to balances of derivative financial assets which are presented above.

**Credit risk weighted amount**

*Group and Bank*

| | 31 December **2009** | 2008 |
|---|---|---|
| Exchange rate contracts | **23** | 13 |
| Interest rate contracts | **37** | 22 |
| | **60** | 35 |

The credit risk weighted amount represents the counterparty credit risk associated with derivative financial instruments and are calculated with reference to the guidelines issued by the CBRC and are dependent on, among other factors, the credit worthiness of the counterparty and the maturity characteristics of each type of contract.

The credit risk weighted amounts and replacement costs stated above have taken the effects of netting arrangements into account.

## 16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

**Group and Bank**

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Placements with banks and other financial institutions | | |
| — Banks | **50,339** | 30,324 |
| — Other financial institutions | **22,676** | 22,176 |
| | **73,015** | 52,500 |
| Less: allowance for impairment losses — individually assessed | **—** | (92) |
| Net | **73,015** | 52,408 |

The movement of allowance for impairment losses are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Opening balance | **92** | 94 |
| Releases | **—** | (2) |
| Amount written off during the year as uncollectible | **(92)** | — |
| Ending balance | **—** | 92 |

Placements with banks and other financial institutions include balances arising from reverse repurchase agreements as follows:

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Discounted bills | **46,861** | 23,463 |
| Finance lease receivables | **4,088** | — |
| Government and quais-government bonds | **1,070** | 10,450 |
| Corporate loans | **280** | 1,400 |
| Total | **52,299** | 35,313 |

## 17 LOANS AND ADVANCES TO CUSTOMERS

**Group**

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Loans to corporate entities | | |
| — Corporate loans | **676,084** | 475,185 |
| — Discounted bills | **35,221** | 63,931 |
| — Others | **7,794** | 10,673 |
| Subtotal | **719,099** | 549,789 |
| Loans to individuals | | |
| — Mortgage loans | **99,619** | 87,401 |
| — Shang Dai Tong* | **44,809** | 6,637 |
| — Credit Cards | **14,266** | 12,727 |
| — Others | **5,186** | 1,806 |
| Subtotal | **163,880** | 108,571 |
| Loan and advances to customers, gross | **882,979** | 658,360 |
| Less: allowance for impairment losses | | |
| — Individually assessed | **(4,378)** | (3,990) |
| — Collectively assessed | **(10,863)** | (7,895) |
| | **(15,241)** | (11,885) |
| Loan and advances to customers, net | **867,738** | 646,475 |

**Bank**

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Loans to corporate entities | | |
| — Corporate loans | **675,154** | 475,176 |
| — Discounted bills | **35,174** | 63,917 |
| — Others | **7,794** | 10,673 |
| Subtotal | **718,122** | 549,766 |
| Loans to individuals | | |
| — Mortgage loans | **99,615** | 87,397 |
| — Shang Dai Tong* | **44,809** | 6,637 |
| — Credit Cards | **14,266** | 12,727 |
| — Others | **4,706** | 1,801 |
| Subtotal | **163,396** | 108,562 |
| Loan and advances to customers, gross | **881,518** | 658,328 |
| Less: allowance for impairment losses | | |
| — Individually assessed | **(4,378)** | (3,990) |
| — Collectively assessed | **(10,848)** | (7,895) |
| | **(15,226)** | (11,885) |
| Loan and advances to customers, net | **866,292** | 646,443 |

* Shang Dai Tong is a line of loan products specifically designed for owners of individual businesses, small business and micro-enterprises.

There was no loans to corporate customers and discounted bills pledged as collateral under repurchase agreements with banks and other financial institutions as at 31 December, 2009 (2008: RMB5.45 billion).

## 18 INVESTMENT SECURITIES

**Group**

| | 31 December **2009** | 2008 |
|---|---|---|
| Available-for-sale securities | **49,035** | 53,597 |
| Held-to-maturity securities | **57,142** | 38,716 |
| Loans and receivables | **45,567** | 37,066 |
| | **151,744** | 129,379 |
| Analyzed as follows: | | |
| — Listed in Hong Kong | **2,654** | 2,708 |
| — Listed outside Hong Kong | **101,983** | 84,788 |
| — Unlisted | **47,107** | 41,883 |
| | **151,744** | 129,379 |

**Bank**

| | 31 December **2009** | 2008 |
|---|---|---|
| Available-for-sale securities | **49,035** | 53,597 |
| Held-to-maturity securities | **57,102** | 38,716 |
| Loans and receivables | **45,567** | 37,066 |
| | **151,704** | 129,379 |
| Analyzed as follows: | | |
| — Listed in Hong Kong | **2,654** | 2,708 |
| — Listed outside Hong Kong | **101,983** | 84,788 |
| — Unlisted | **47,067** | 41,883 |
| | **151,704** | 129,379 |

Investment securities pledged as collateral under agreements signed with banks and other financial institutions as at 31 December, 2009 amounted to RMB3.26 billion (2008: RMB3.30 billion). Such agreements interest rate swap contracts and negotiated deposits.

The Group did not make any reclassification of investment securities as at 31 December, 2009 and as at 31 December, 2008.

## 19 FINANCE LEASE RECEIVABLES

| | 31 December 2009 | 2008 |
|---|---|---|
| Finance lease receivables | **19,383** | 5,991 |
| Less: unearned finance income | **(2,276)** | (681) |
| | **17,107** | 5,310 |
| Less: allowance for impairment losses — collectively assessed | **(233)** | (57) |
| Net | **16,874** | 5,253 |

Movement of allowance for impairment losses of finance lease receivables are as follows:

| | Year ended 31 December 2009 | 2008 |
|---|---|---|
| Opening balance | **57** | — |
| New allowances | **176** | 57 |
| Ending balance | **233** | 57 |

| | 31 December 2009 | 2008 |
|---|---|---|
| Gross investment in finance leases, receivable: | | |
| — Not later than 1 year | **4,900** | 1,513 |
| — Later than 1 year and not later than 5 years | **13,460** | 4,478 |
| — Later than 5 years | **1,023** | — |
| | **19,383** | 5,991 |
| Unearned finance income on finance leases | **(2,276)** | (681) |
| Present value of minimum lease payments, receivable | **17,107** | 5,310 |

The present value of minimum lease payments may be analysed as follows:

| | | |
|---|---|---|
| — Not later than 1 year | **4,266** | 1,327 |
| — Later than 1 year and not later than 5 years | **11,950** | 3,983 |
| — Later than 5 years | **891** | — |
| | **17,107** | 5,310 |

Finance lease receivables pledged as collateral under repurchase and borrowings agreements with banks and other financial institutions as at 31 December, 2009 amounted to RMB5.03 billion (2008: RMB1.47 billion).

## 20 PROPERTY AND EQUIPMENT

| | Buildings | Leasehold improvements | Office equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| 31 December, 2009 | | | | | | |
| Original cost | 3,923 | 1,622 | 2,835 | 222 | 2,921 | 11,523 |
| Accumulated depreciation | (609) | (994) | (1,716) | (136) | — | (3,455) |
| Net value | 3,314 | 628 | 1,119 | 86 | 2,921 | 8,068 |
| **Group** | | | | | | |
| 31 December, 2008 | | | | | | |
| Original cost | 3,472 | 1,262 | 2,408 | 200 | 2,518 | 9,860 |
| Accumulated depreciation | (490) | (785) | (1,502) | (110) | — | (2,887) |
| Net value | 2,982 | 477 | 906 | 90 | 2,518 | 6,973 |
| **Bank** | | | | | | |
| 31 December, 2009 | | | | | | |
| Original cost | 3,916 | 1,606 | 2,812 | 218 | 2,921 | 11,473 |
| Accumulated depreciation | (608) | (990) | (1,712) | (135) | — | (3,445) |
| Net value | 3,308 | 616 | 1,100 | 83 | 2,921 | 8,028 |
| **Bank** | | | | | | |
| 31 December, 2008 | | | | | | |
| Original cost | 3,465 | 1,262 | 2,393 | 196 | 2,518 | 9,834 |
| Accumulated depreciation | (490) | (785) | (1,501) | (109) | — | (2,885) |
| Net value | 2,975 | 477 | 892 | 87 | 2,518 | 6,949 |

## 21 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority. Deferred income tax is provided in full, using the liability method, on all temporary differences.

The movement on the deferred income tax account is as follows:

**Group**

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Opening balance | **1,079** | (1,306) |
| Recognized in the income statement | **1,047** | 1,215 |
| Tax charged directly to equity | **1,055** | 1,170 |
| Ending balance | **3,181** | 1,079 |

**Bank**

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Opening balance | **1,078** | (1,306) |
| Recognized in the income statement | **1,033** | 1,214 |
| Tax charged directly to equity | **1,055** | 1,170 |
| Ending balance | **3,166** | 1,078 |

The movement in deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

**Deferred income tax assets**

| | Assets impairment allowance | Fair value losses | Others | Total |
|---|---|---|---|---|
| **Group** | | | | |
| At 1 January, 2009 | 2,062 | 343 | 125 | 2,530 |
| Charged to the consolidated income statement | 866 | (208) | 191 | 849 |
| Charged directly to equity | — | 83 | — | 83 |
| At 31 December, 2009 | 2,928 | 218 | 316 | 3,462 |
| **Group** | | | | |
| At 1 January, 2008 | 930 | 626 | 52 | 1,608 |
| Charged to the consolidated income statement | 1,132 | (53) | 73 | 1,152 |
| Charged directly to equity | — | (230) | — | (230) |
| At 31 December, 2008 | 2,062 | 343 | 125 | 2,530 |
| **Bank** | | | | |
| At 1 January, 2009 | 2,061 | 343 | 125 | 2,529 |
| Charged to the income statement | 852 | (208) | 191 | 835 |
| Charged directly to equity | — | 83 | — | 83 |
| At 31 December, 2009 | 2,913 | 218 | 316 | 3,447 |
| **Bank** | | | | |
| At 1 January, 2008 | 930 | 626 | 52 | 1,608 |
| Charged to the income statement | 1,131 | (53) | 73 | 1,151 |
| Charged directly to equity | — | (230) | — | (230) |
| At 31 December, 2008 | 2,061 | 343 | 125 | 2,529 |

**Deferred income tax liabilities**

| | Fair value gains | Others | Total |
|---|---|---|---|
| **Group** | | | |
| At 1 January, 2009 | (1,451) | — | (1,451) |
| Charged to the consolidated income statement | 198 | — | 198 |
| Charged directly to equity | 972 | — | 972 |
| At 31 December, 2009 | (281) | — | (281) |
| **Group** | | | |
| At 1 January, 2008 | (2,854) | (60) | (2,914) |
| Charged to the consolidated income statement | 3 | 60 | 63 |
| Charged directly to equity | 1,400 | — | 1,400 |
| At 31 December, 2008 | (1,451) | — | (1,451) |
| **Bank** | | | |
| At 1 January, 2009 | (1,451) | — | (1,451) |
| Charged to the income statement | 198 | — | 198 |
| Charged directly to equity | 972 | — | 972 |
| At 31 December, 2009 | (281) | — | (281) |
| **Bank** | | | |
| At 1 January, 2008 | (2,854) | (60) | (2,914) |
| Charged to the income statement | 3 | 60 | 63 |
| Charged directly to equity | 1,400 | — | 1,400 |
| At 31 December, 2008 | (1,451) | — | (1,451) |

## 22 INVESTMENT IN SUBSIDIARIES

| | 31 December **2009** | 2008 |
|---|---|---|
| Minsheng Financial Leasing Co., Ltd. (“Minsheng Leasing”) | **2,600** | 2,600 |
| Minsheng Royal Fund Management Co., Ltd. (“Minsheng Royal Fund Management”) | **120** | 120 |
| Cixi Minsheng Township Bank Co., Ltd. (“Cixi Minsheng Township Bank”) | **35** | 35 |
| Pengzhou Minsheng Township Bank Co., Ltd. (“Pengzhou Minsheng Township Bank”) | **20** | 20 |
| Shanghai Songjiang Minsheng Township Bank Co., Ltd. (“Songjiang Minsheng Township Bank”) | **35** | — |
| | **2,810** | 2,775 |

| Name | Date of incorporation | Place of incorporation and operation | Principal activities | Registered Capital | Nature of legal entity | Interest held |
|---|---|---|---|---|---|---|
| Minsheng Leasing | 2 April, 2008 | Tianjin China | Leasing | 3,200 | Limited company | 81.25% |
| Minsheng Royal Fund Management | 3 November, 2008 | Guangdong China | Fund management | 200 | Limited company | 60% |
| Cixi Minsheng Township Bank | 30 December, 2008 | Ningbo China | Commercial bank | 100 | Limited company | 35%* |
| Pengzhou Minsheng Township Bank | 12 September, 2008 | Sichuan China | Commercial bank | 55 | Limited company | 36.36%* |
| Songjiang Minsheng Township Bank | 29 December, 2009 | Shanghai China | Commercial bank | 100 | Limited company | 35%* |

All interests in subsidiaries are directly held.

* The Bank owns the majority of the voting rights in the board of directors of these companies, which enables the Bank to govern their financial and operating policies. These companies are treated as subsidiaries and are included in the consolidated financial statements.

## 23 DEPOSITS FROM CUSTOMERS

### Group

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Demand deposits | | |
| — Corporate deposits | **497,422** | 295,597 |
| — Individual deposits | **50,894** | 33,599 |
| Time deposits (including notice deposits) | | |
| — Corporate deposits | **435,146** | 352,275 |
| — Individual deposits | **143,210** | 102,669 |
| Other deposits | **1,266** | 1,646 |
| Total | **1,127,938** | 785,786 |

The security and margin deposits are analyzed as follows:

| | | |
|---|---|---|
| Security deposits for bank acceptances | **86,293** | 90,416 |
| Security deposits for letters of credit and letters of guarantee issued | **6,865** | 8,480 |
| Other security deposits | **13,507** | 10,052 |
| Total | **106,665** | 108,948 |

**Bank**

| | 31 December **2009** | 2008 |
|---|---|---|
| Demand deposits | | |
| — Corporate deposits | **495,457** | 295,656 |
| — Individual deposits | **50,794** | 33,582 |
| Time deposits (including notice deposits) | | |
| — Corporate deposits | **434,941** | 352,275 |
| — Individual deposits | **142,932** | 102,655 |
| Other deposits | **1,266** | 1,646 |
| Total | **1,125,390** | 785,814 |

The security and margin deposits are analyzed as follows:

| | | |
|---|---|---|
| Security deposits for bank acceptances | **86,194** | 90,416 |
| Security deposits for letters of credit and letters of guarantee issued | **6,865** | 8,480 |
| Other security deposits | **13,490** | 10,052 |
| Total | **106,549** | 108,948 |

## 24 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

**Group**

| | 31 December **2009** | 2008 |
|---|---|---|
| Due to and placements from banks and other financial institutions | | |
| — Due to banks | **86,025** | 95,084 |
| — Due to other financial institutions | **66,292** | 65,164 |
| Total | **152,317** | 160,248 |

**Bank**

| | 31 December **2009** | 2008 |
|---|---|---|
| Due to and placements from banks and other financial institutions | | |
| — Due to banks | **82,884** | 94,601 |
| — Due to other financial institutions | **66,498** | 65,352 |
| Total | **149,382** | 159,953 |

Included in due to and placements from banks and other financial institutions are amounts received from counterparties under repurchase agreements categorized as follows:

**Group**

| | 31 December 2009 | 2008 |
|---|---|---|
| Repurchase of: | | |
| Discounted bills | **—** | 5,231 |
| Debt securities | **2,000** | 2,000 |
| Loans and advances to customers | **—** | 214 |
| Finance lease receivables | **4,347** | 567 |
| Total | **6,347** | 8,012 |

**Bank**

| | 31 December 2009 | 2008 |
|---|---|---|
| Repurchase of: | | |
| Discounted bills | **—** | 5,231 |
| Debt securities | **2,000** | 2,000 |
| Loans and advances to customers | **—** | 214 |
| Total | **2,000** | 7,445 |

## 25 DEBT SECURITIES IN ISSUE

**Group and Bank**

| | 31 December 2009 | 2008 |
|---|---|---|
| Financial bonds | **12,175** | 22,459 |
| Subordinated bonds | **1,401** | 7,252 |
| Hybrid capital bonds | **9,484** | 4,288 |
| | **23,060** | 33,999 |

## 26 SHARE CAPITAL AND CAPITAL RESERVE

The total number of authorized ordinary shares is 22.26 billion shares as at 31 December, 2009 with a par value of RMB1 yuan per share, among which 0.29 billion shares was restricted on sale (2008:18.82 billion shares, among which 0.93 billion shares were restricted on sale). All issued shares are fully paid.

The Group's capital reserve is RMB38.08 billion as at 31 December, 2009, which mainly comprises capital premium (2008: RMB14.77 billion).

In 2009, 3.439 billion shares were issued with a par value of RMB1 yuan per share, with share premium of RMB23.31 billion after deduction of issuing cost, through offerings related to listings on the Stock Exchange of Hong Kong Limited.

All dividends or distributions declared, paid or made in respect of the A Shares and H Shares will rank pari passu with each other.

## 27 SURPLUS RESERVE, GENERAL RESERVE AND RETAINED EARNINGS

### (1) Surplus reserve

Under relevant PRC Laws, the Bank is required to transfer 10% of its net profit, as determined under PRC GAAP, to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserve can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserve amount used to increase the share capital is limited to a level where the balance of statutory surplus reserve after such capitalization is not less than 25% of the share capital.

The Bank appropriated RMB1.20 billion for the year ended 31 December, 2009 (2008: RMB0.78 billion).

### (2) General reserve

Pursuant to circulars issued by MOF in 2005, the Bank is required to establish and maintain a general reserve within equity, through the appropriation of income to address unidentified potential impairment losses. The general reserve should not be less than 1% of the aggregate amount of risk assets as defined by this policy. Effective from 1 July, 2005, the general reserve should be provided in full within three years. In no case could the transitional period exceed five years.

The Bank appropriated RMB2.9 billion to the general reserve for the year ended 31 December, 2009 (2008: RMB2.2 billion).

Pursuant to circulars issued by MOF in 2007, Minsheng Leasing attributed 1% of its net profits to general reserve, Minsheng Royal Fund Management attributed 10% of its monthly fee income from securities investment fund management based on circulars issued by CSRC in 2006, and Minsheng three village banks attributed 1% of the aggregate amount of risk assets defined by MOF. In total the subsidiaries contributed RMB3.64 million to general reserve for the year ended 31 December, 2009, including RMB2.50 million attributable to the Bank (2008: Minsheng Leasing contributed RMB0.78 million, or 1% of its net profits to general reserve, including RMB0.63 million attributable to the Bank.)

### (3) Retained earnings

As at 31 December, 2009, the retained earnings contained statutory surplus reserve of 19million contributed by subsidiaries (31 December, 2008: RMB6 million), RMB13 million of which are the appropriation made by subsidiaries for the year ended 31 December, 2009 (2008: RMB6 million). The retained earnings contained statutory surplus reserve contributed by subsidiaries can not be further distributed.

## 28 DIVIDENDS

In respect of 2009, share dividends of 4,453 million and cash dividends of RMB1,113 million (0.05 per share and before tax) have been approved. (2008: Cash dividends of RMB1,506 million, 0.08 per share and before tax).

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Dividends payable to equity holders of the Bank attributable to the year | | |
| Proposed final dividend | **5,566** | 1,506 |
| Dividends payable to equity holders of the Bank attributable to the previous financial year, approved and paid during the year | | |
| Final dividend paid | **1,506** | 3,620 |

## 29 RESERVE FOR FAIR VALUE CHANGES OF AVAILABLE-FOR-SALE SECURITIES

**Group and Bank**

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Opening balance | **3,296** | 6,780 |
| Change of fair value of available-for-sale securities | **310** | (5,306) |
| Less: deferred income tax | **(77)** | 1,333 |
| Transfer to profit or loss upon disposal | **(4,911)** | 53 |
| Less: deferred income tax | **1,221** | (13) |
| Impairment losses on available-for-sale | **356** | 599 |
| Less: deferred income tax | **(89)** | (150) |
| Ending balance | **106** | 3,296 |

## 30 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of cash flows consists of the following:

**Group**

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Cash | **4,464** | 2,900 |
| Unrestricted balance with central banks | **98,980** | 97,421 |
| Original maturity within 3 months: | | |
| — Due from banks and other financial institutions | **56,964** | 11,781 |
| — Government and quasi-government bonds | **1,342** | 200 |
| | **161,750** | 112,302 |

## 31 CONTINGENT LIABILITIES AND COMMITMENTS

### (1) Credit commitments

*Group*

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Acceptances | **216,657** | 145,005 |
| Letters of guarantee | **45,593** | 49,029 |
| Unused credit card limits | **28,466** | 28,140 |
| Letters of credit | **15,094** | 8,250 |
| Irrevocable loan commitments | **5,422** | 6,000 |
| Finance lease commitments | **1,841** | 475 |
| | **313,073** | 236,899 |
| Credit risk weighted amounts of credit commitments | **137,757** | 128,820 |

*Bank*

| | 31 December **2009** | 2008 |
|---|---|---|
| Acceptances | **216,555** | 145,005 |
| Letters of guarantee | **45,593** | 49,029 |
| Unused credit card limits | **28,466** | 28,140 |
| Letters of credit | **15,094** | 8,250 |
| Irrevocable loan commitments | **5,422** | 6,000 |
| | **311,130** | 236,424 |
| Credit risk weighted amounts of credit commitments | **137,752** | 128,345 |

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the credit worthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100%.

**(2) Capital commitments**

*Group*

| | 31 December **2009** | 2008 |
|---|---|---|
| Property and equipment | | |
| — Contracted but not provided for | **256** | 755 |
| — Authorized but not contracted for | **—** | 118 |
| Equity investment | | |
| — Contracted but not provided for | **—** | 2,340 |
| — Authorized but not contracted for | **—** | — |
| | **256** | 3,213 |

*Bank*

| | 31 December **2009** | 2008 |
|---|---|---|
| Property and equipment | | |
| — Contracted but not provided for | **256** | 214 |
| — Authorized but not contracted for | **—** | 118 |
| Equity investment | | |
| — Contracted but not provided for | **—** | 2,340 |
| — Authorized but not contracted for | **—** | — |
| | **256** | 2,672 |

The Group's management is confident that future net revenues and funding will be sufficient to cover these commitments.

### (3) Operating lease commitments

Future minimum lease payments on operating leases are summarized as follows:

*Group*

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Less than 1 year | **875** | 625 |
| 1 to 5 years | **2,557** | 1,610 |
| Later than 5 years | **852** | 379 |
| | **4,284** | 2,614 |

*Bank*

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Less than 1 year | **867** | 617 |
| 1 to 5 years | **2,537** | 1,584 |
| Later than 5 years | **852** | 378 |
| | **4,256** | 2,579 |

### (4) Assets pledged

*Group*

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Loans to corporate customers and discounted bills | **—** | 5,445 |
| Trading financial assets | **2,025** | 2,047 |
| Investment securities | **3,257** | 3,305 |
| Finance lease receivables | **5,033** | 1,470 |
| | **10,315** | 12,267 |

*Bank*

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Loans to corporate customers and discounted bills | **—** | 5,445 |
| Trading financial assets | **2,025** | 2,047 |
| Investment securities | **3,257** | 3,305 |
| | **5,282** | 10,797 |

Assets are pledged as collateral under repurchase agreements with banks and other financial institutions, derivative contracts, letters of guarantee issued, negotiated deposits taken and borrowings agreements with banks and other financial institutions.

Mandatory reserve deposits are also held with the PBOC in accordance with statutory requirements. These deposits are not available to finance the Group's day-to-day operations.

The pledged bills accepted by the Group and Bank in relation to resale agreement can be sold and re-pledged. The fair values of such accepted pledged assets were RMB46.86 billion as at 31 December, 2009 (2008: RMB23.46 billion). Furthermore, there is no pledged assets sold by the Bank but with the obligation to return such pledged assets at the expiration at 31 December, 2009 (2008: RMB3.11 billion).

**(5) Security underwriting**

*Group and Bank*

| | 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Medium — and short-term financing bills | **11,850** | 2,900 |

**(6) Certificate Treasury Bonds redemption commitments**

The Bank is entrusted by the MOF to underwrite certain Certificate Treasury Bonds. The investors of Certificate Treasury Bonds have the option to redeem the bonds at par any time prior to maturity, and the Bank is committed to repurchase those bonds at the redemption price. The redemption price is the par value of the Certificate Treasury Bonds plus unpaid interest in accordance with the early redemption arrangement. The principal of the bonds amounted to RMB4.35 billion as at 31 December, 2009 (2008: RMB3.71 billion). The original maturities of these bonds vary from 1 to 5 years. As the deposit base rate established by PBOC is currently lower than the yields on all issue of Certificate Treasury Bonds, management expects the amount of redemption before the maturity dates of those bonds will not be material.

**(7) Legal proceedings**

There were a number of outstanding litigation matters against the Group at 31 December, 2008 and 2009. After considering professional advice received, the Group's management believes such litigation will not cause significant losses to the Group.

## 32 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any income or losses arising thereon are excluded from these financial statements, as they are not the assets of the Group.

The Group's balances of fund custodian operations were RMB23.32 billion as at 31 December, 2009 (2008: RMB15.85 billion). The Group's balances of pension were RMB1.50 billion as at 31 December, 2009 (2008: RMB0.84 billion). The Group's balances of credit assets management operations were RMB16.37 billion as at 31 December, 2009 (2008: RMB1.23 billion). And the Group's balances of entrusted loans were RMB33.01 billion as at 31 December, 2009 (2008: RMB25.22 billion).

## 33 RELATED PARTY TRANSACTIONS

Related parties of the Group refer to entities controlled or, jointly controlled by or under significant influence of the Group; entities that control, jointly control or have significant influence over the Group; or entities with which the Group is under control, joint control or significant influence of another party. Related parties can be individuals or enterprises. Related parties that have significant influence on the Group include: companies controlled or significantly influenced by members of the Board of Directors and the Board of Supervisors, senior management or their related persons, the subsidiaries of these companies, and major shareholders with the power to influence the operating decision-making or financial policies of the Group.

There was no shareholders holding more than 5 percent (include 5%) stock as at 31 December, 2009 (As at 31 December, 2008: New Hope Investment Co., Ltd. and China Life Insurance Co., Ltd. held more than 5 percent (include 5%) stock).

The terms of transactions with related parties were in accordance with the terms of the underlying agreements arranged in the ordinary course of the Group's business.

**(1) Loans granted to related parties**

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Opening balance | **1,814** | 1,653 |
| Transfer in | **3** | — |
| Loans granted during the year | **3,293** | 920 |
| Loan repayments/transfers during the year | **(2,529)** | (759) |
| Ending balance | **2,581** | 1,814 |
| Interest income earned | **102** | 99 |

There is no impaired loan identified among the above related party loans as at 31 December, 2009 and 31 December, 2008.

Guaranteed loans which amounted to RMB1.29 billion as at 31 December, 2009, unsecured loans which amounted to RMB0.07 billion as at 31 December, 2009 and collateralized loans amounted to RMB1.23 billion as at 31 December, 2009 were included in the above loans to related parties.(2008:Guaranteed loans amounted to RMB1.18 billion and collateralized loans amounted to RMB0.63 billion.)

The interest rates ranges of loans granted to related parties are 2.48%–5.84% for year ended 31 December, 2009 (2008: 5.20%–6.14%).

**(2) Deposits taken from related parties**

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| Opening balance | **19,908** | 2,544 |
| Transfer out | **(18,445)** | — |
| Transfer in | **27,318** | — |
| Deposits repaid during the year | **(155,257)** | 108,215 |
| Deposits taken during the year | **146,486** | (90,851) |
| Ending balance | **20,010** | 19,908 |

The interest expense incurred on the related parties' deposits were not material for the years ended 31 December, 2009 and 2008.

**(3)** In addition to the above loans granted to related parties:

| | 31 December 2009 | 2008 |
|---|---|---|
| Due to and placements from banks and other financial institutions | **2,812** | 1,263 |
| Loans guaranteed by related parties | **1,615** | 1,106 |
| Loan purchased under resale agreement by related parties | **280** | — |
| Acceptance issued for related parties | **240** | 464 |
| Advances received from related parties | **122** | — |
| Investment securities issued by related parties | **61** | — |
| Related-party bills discounted by the Group | **32** | 2 |
| Bills purchased under resale agreement by related parties | **10** | 100 |

All the above related parties transactions do not have a significant impact on the consolidated income statement or consolidated statement of financial position.

**(4) Services provided by related parties**

The Bank and Minsheng Life Insurance Company signed a rental contract that the Bank would take Minsheng Life Tower as office space and pay rent, property fees etc. on time.

The Bank commissioned China Life Pension Company Limited to take the responsibilities of investment and operational management for corporate pension plans.

**(5) Transactions with key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including directors, supervisors and executive officers.

The Group enters into banking transactions with directors and key management personnel in the ordinary course of business. These include loans and deposits, which are carried out at rates in accordance with the terms of the underlying agreements. Loans outstanding to the key management amounted to RMB3 million as at 31 December, 2009, which have been included in the above loans granted to related parties (2008:nil).

Salaries and other short-term benefits paid to the key management personnel amounted to RMB101 million as at 31 December, 2009 (2008: RMB85 million), including 31 million venture funds which has already been accrued by the certain proportion of the key management's annual bonus but not yet distributed to key management personnel (2008:nil). No post-employment benefits, termination benefits or other long-term benefits were provided to the key management personnel during 2008 and 2009.

**(6) The balance with subsidiaries**

The balance with the subsidiary is not significant, which has been offset in consolidated financial statements.

## 34 EVENTS AFTER THE DATE OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at the date of this report, other than the dividends, the Group had no material subsequent event.

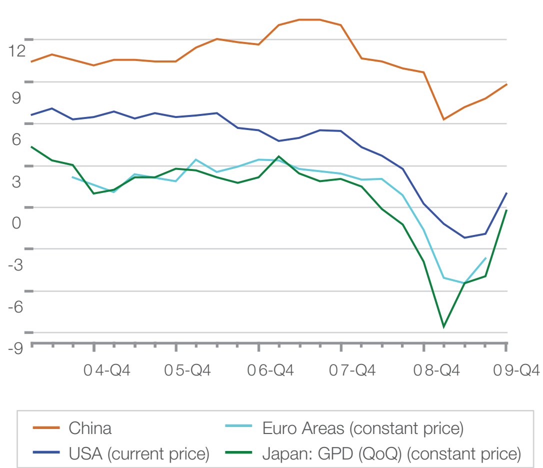
# MANAGEMENT DISCUSSION AND ANALYSIS

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

### *(I) General trends of the global economy*

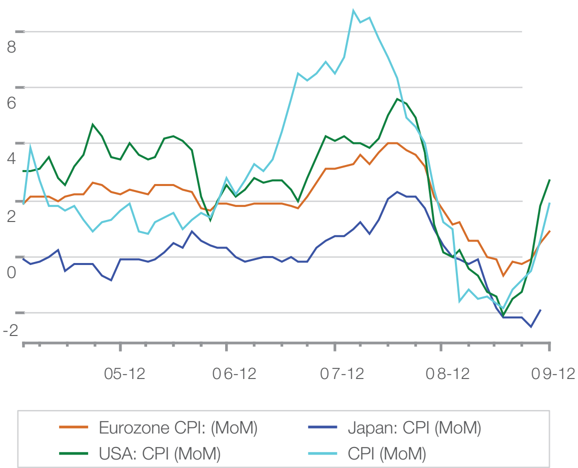
The global economy has bottomed out under vigorous rescue measures implemented by various governments in 2009. Countries in emerging markets, China in particular, took the lead in the recovery, followed by the USA, Japan and Europe. Real estate, manufacturing and consumption were stimulated by revitalization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

**GDP growth of major economies stabilizing at bottom**




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

**CPIs of major economies on the rise**




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

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

### *(II) Major characteristics of the Chinese economy*

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

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

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

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

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

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

### *(III) Developments in the financial and banking industry*

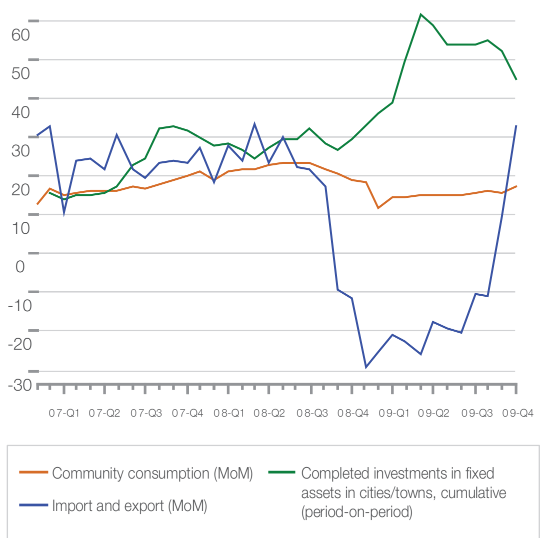
Due to several cuts in deposit reserve ratio requirement and the removal of credit restrictions in 2008, the lending capability of banks increased significantly. However, as interest spread narrowed due to interest rate cuts, banks, directed by government policy and particularly active encouragement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

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

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

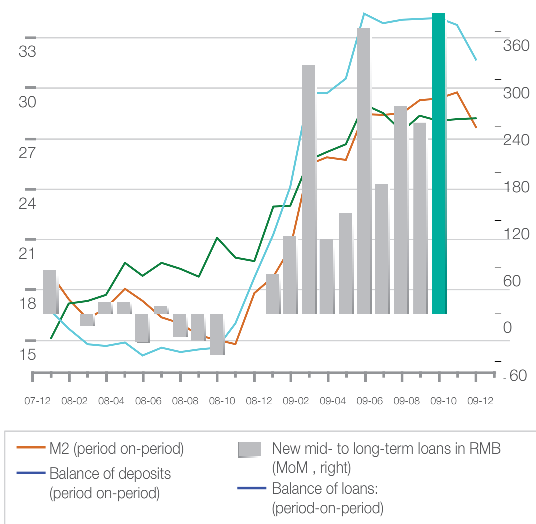
The exchange rate between RMB and USD remained stable. Under the combined effects of a generally depreciating USD and a rapid growth of Chinese economy, RMB faced increasing pressure of appreciation against the currencies of major developed countries. In 2009, the financial market was generally stable,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

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




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

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




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

### *(IV) Effect on the Company and response measures*

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

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

## II. Overview of operations

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

### *(I) Relatively rapid growth in profitability*

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

### *(II) Steady expansion in asset size*

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

### *(III)Preliminary success of cost control measures*

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

### *(IV)Improvement of asset quality*

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

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

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

## III. Analysis of major items of income statement

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

*(I) Changes in items of income statement*

*(Unit: RMB million)*

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

*(II) Operating income*

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

### *(III) Net interest income*

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

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

*(Unit: RMB million)*

| | **2009** | | | 2008 | | |
|---|---|---|---|---|---|---|
| **Item** | **Average balance** | **Interest income** | **Average return (%)** | Average balance | Interest income | Average return (%) |
| **Assets** | | | | | | |
| Loans and advances | **812,568** | **43,160** | **5.31** | 591,183 | 44,433 | 7.52 |
| Investment securities-debt securities | **147,461** | **5,478** | **3.71** | 140,041 | 5,451 | 3.89 |
| Balance with central bank | **134,316** | **1,941** | **1.45** | 135,555 | 2,216 | 1.63 |
| Due from and placement with banks and other financial institutions | **138,094** | **2,077** | **1.50** | 93,540 | 4,000 | 4.28 |
| Others | **12,412** | **785** | **6.32** | 4,399 | 211 | 4.80 |
| Total | **1,244,851** | **53,441** | **4.29** | 964,718 | 56,311 | 5.84 |

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Average balance** | **Interest expenses** | **Average cost (%)** | Average balance | Interest expenses | Average cost (%) |
| **Liabilities** | | | | | | |
| Deposits from customers | **964,863** | **16,060** | **1.66** | 708,455 | 18,428 | 2.60 |
| Due to and placements from banks and other financial institutions | **172,012** | **3,597** | **2.09** | 168,721 | 6,045 | 3.58 |
| Debt securities in issue | **30,259** | **1,315** | **4.35** | 33,500 | 1,410 | 4.21 |
| Others | **8,296** | **229** | **2.76** | 2,518 | 48 | 1.91 |
| Total | **1,175,430** | **21,201** | **1.80** | 913,194 | 25,931 | 2.84 |
| **Net interest income** | | **32,240** | | | **30,380** | |
| **Net interest spread** | | | **2.49** | | | **3.00** |
| **Net interest margin** | | | **2.59** | | | **3.15** |

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

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

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

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

*(Unit: RMB million)*

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

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

1. *Interest income*

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

(1) Interest income from loans and advances to customers

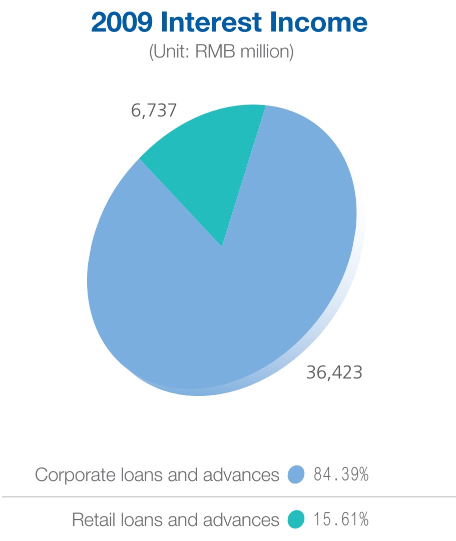
Various loan portfolios of the Group developed rapidly in 2009. However, interest income from loans and advances decreased by 2.9% as compared with the previous year due to the effects of interest rate cut.

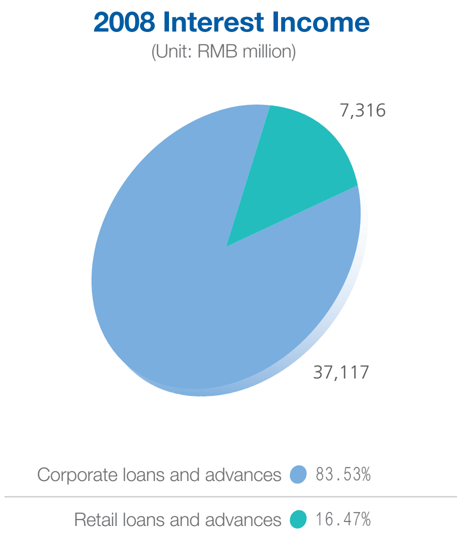
The table below sets out the average balances, interest incomes and average return of the components of loans and advances to customers of the Group during the reporting period.

*(Unit: RMB million)*

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

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




(2) Interest income from investment securities-debt securities

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

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

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

2. *Interest expenses*

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

(1) Interest expenses on deposits

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

Interest expenses and costs ratio on corporate deposits:

*(Unit: RMB million)*

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

Interest expenses and costs ratio on retail deposits:

*(Unit: RMB million)*

| | **2009** | | | 2008 | | |
|---|---|---|---|---|---|---|
| **Item** | **Average balance** | **Interest expenses** | **Average cost (%)** | Average balance | Interest expenses | Average cost (%) |
| Demand | **37,286** | **132** | **0.35** | 30,915 | 197 | 0.64 |
| Time | **124,970** | **2,904** | **2.32** | 84,811 | 2,280 | 2.69 |
| Total | **162,257** | **3,036** | **1.87** | 115,726 | 2,477 | 2.14 |

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

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

(3) Interest expenses on debt securities

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

### *(IV) Non-interest income*

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

*1. Analysis of non-interest income*

*(Unit: RMB million)*

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

2. *Analysis of net fee and commission income*

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

*(Unit: RMB million)*

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

3. *Other non-interest gain/(loss)*

*(Unit: RMB million)*

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

### *(V) Operating expenses*

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

*(Unit: RMB million)*

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

### *(VI) Impairment losses on assets*

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

*(Unit: RMB million)*

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

### *(VII) Income tax*

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

## IV. Analysis of major items of statement of financial position

### *(I) Assets*

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

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

*(Unit: RMB million)*

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

1. *Loans and advances*

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

*(Unit: RMB million)*

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

Breakdown of retail loan business is as follows:

*(Unit: RMB million)*

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

2. *Investment securities and other financial assets*

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

(1) Breakdown of investment securities and other financial assets

*(Unit: RMB million)*

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

(2) Holdings of major government bonds

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

*(Unit: RMB million)*

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

(3) Holdings of major financial bonds

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

*(Unit: RMB million)*

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

(4) Major types and amount of derivative financial instruments

*(Unit: RMB million)*

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

Our financial instruments measured at fair value include: trading financial assets, derivative financial instruments and available-for-sale investments. Trading financial assets and debt securities in available-for-sale investments were evaluated using the following methods: for RMB bonds, in principle the valuation provided by China Government Securities Depository Trust & Clearing Co. Ltd. would apply; for bonds denominated in foreign exchange, market value was determined through a combination of BLOOMBERG quotes, DATASCOPE quotes and enquiries; for equity interests in other listed companies held by the Company, the closing price on the last day of the reporting period was used; and the fair value of most derivative financial instruments was obtained from quotes of market prices.

The Company did not have substantial investments in trading financial assets, and the changes in the fair market value of assets had little impact on the profit of the Company. Derivative financial instruments mainly consisted of interest rate swap contracts with customers, the market risks of which had been hedged and the changes in fair value had little impact on the profit of the Company. Changes in fair value of available-for-sale investments were considered when calculating the shareholders' equities.

### *(II) Liabilities*

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

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

*(Unit: RMB million)*

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

*1. Deposits from customers*

*(Unit: RMB million)*

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

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

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

### *(III) Shareholders' equity*

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

*(Unit: RMB million)*

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

### *(IV)Off-statement items*

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

*(Unit: RMB million)*

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

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

## V. Other Financial Information

### *(I) Items relating to fair value measurement*

*1. Internal control system relating to fair value measurement*

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

### 2. *Items measured at fair value*

*(Unit: RMB million)*

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

## *(II) Financial assets and liabilities denominated in foreign currency*

*(Unit: RMB million)*

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

### *(III) Foreclosed assets*

*(Unit: RMB million)*

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

### *(IV) Overdue and outstanding liabilities*

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

## VI. Qualitative analysis of loans

### *(I) Industry concentration of loans*

*(Unit: RMB million)*

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

### *(II) Loans by geographical distribution*

*(Unit: RMB million)*

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

### *(III) Distribution of loans by collateral*

*(Unit: RMB million)*

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

### *(IV) Top ten borrowers*

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

### *(V) Five-category classification of credit assets*

*(Unit: RMB million)*

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

### *(VI) Migration ratio of loans*

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

### *(VII) Subsidized loans*

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

### *(VIII) Restructured loans and overdue loans*

*(Unit: RMB million)*

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

Notes: 1. Restructured loans are loans for which the terms of repayment under the loan agreement have been amended by the Company as a result of deteriorated financial status of the borrower or the inability by the borrower to repay the debt due.

2. Overdue loans are loans the principal or any interest of which is overdue for 1 or more days, including overdue loan, stagnant loans, bad loans and overdue discounted bills.

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

### *(IX) Allowances for impairment of loans*

*(Unit: RMB million)*

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

Provision method for loan impairment:

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

***(X) Non-performing loans and response measures***

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

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

1. Monitoring closely changes in international and national economies and adjustments in macro-economic policies; strengthening credit planning; insisting on actively adjusting the loan distribution; and continuously optimizing asset structure;

2. Optimizing the organization structure of risk management; improving the policies and systems of risk management; and enhancing the promotion and application of advanced risk management tools;

3. Improving and optimizing the monitoring and warning system as well as on-site and off-site inspection system; strengthening the monitoring on the risk management of major, problematic customers and key geographical regions and industries of the Group; and closely monitoring loans with potential risk factors and doubtful loans in order to develop timely contingency plans;

4. Optimizing the recovery mechanism and procedure for non-performing assets through improving the collection process and utilizing all available recovery resources such as collection, restructuring, foreclosing and taking legal action to increase the efficiency and effectiveness of recovery; and

5. Strengthening training programs in order to improve the professional skills and expertise of the risk management team and cultivate a sound credit management culture and philosophy of compliance.

## VII. Analysis of capital adequacy ratio

*(Unit: RMB million)*

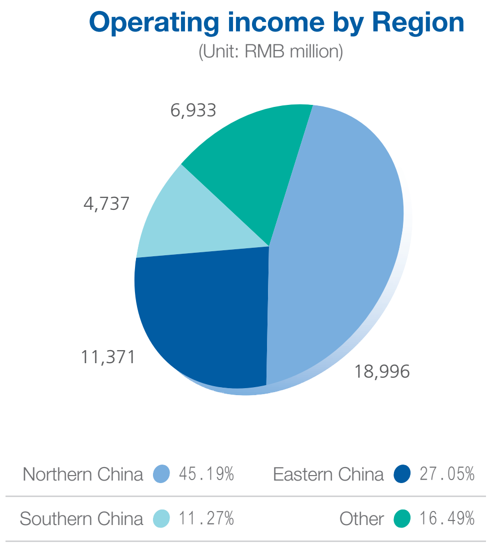
| Item | **31 December, 2009** | 31 December, 2008 | 31 December, 2007 |
|---|---|---|---|
| Net capital | **107,656** | 70,767 | 61,513 |
| Of which: | | | |
| — Core capital | **88,756** | 51,307 | 42,730 |
| — Supplementary capital | **21,224** | 20,700 | 19,397 |
| — Deductions | **2,324** | 1,240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

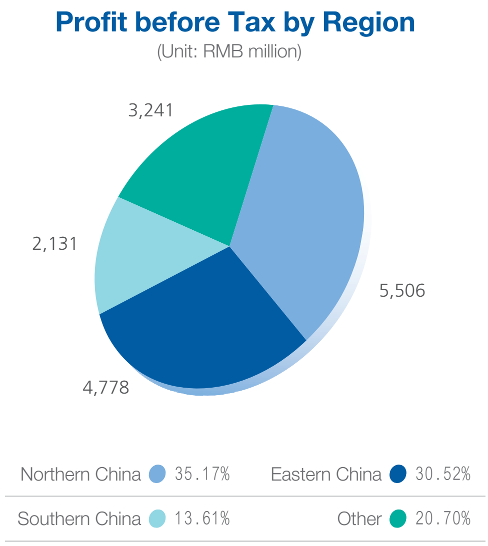
As at the end of the reporting period, capital adequacy ratio and core capital adequacy ratio of the Group increased by 1.61 and 2.32 percentage points respectively. In 2009, change in capital adequacy ratio was mainly due to the following factors: (i) Capital equivalent to RMB26,750 million (net of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

## VIII. Segment report

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

### *(I) Segment operating results by geographical regions*




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

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

### *(II) Segment operating results by business lines*

*(Unit: RMB million)*

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

## IX. Performance of Key Business Lines

### *(I) Corporate banking*

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

*1. Corporate loans*

In the reporting period, the corporate loan business upheld the basic principle of balanced development of efficiency, quality, structure and scale. Leveraging on the opportunities arising from China's stimulus package for major industries and the implementation of a regional development strategy, the Company took the initiative to adjust and optimize its credit structure and risk management. As a result, its business grew quickly in scale while asset quality continued to improve and revenue generated from loans resumed an upward trend. As at the end of the reporting period, outstanding corporate loans (including discounted bills) of the Group amounted to RMB719,099 million, representing an increase of RMB169,310 million, or 30.8%, over the beginning of the period. Of which, general corporate loans outstanding amounted to RMB676,084 million, representing an increase of RMB200,899 million, or 42.3%, over the beginning of the period. Such increase was a record high in terms of the Group's corporate loans in recent years. Non-performing loans of its corporate business continued with 'double reduction' in both amount and ratio. Non-performing outstanding loans and non-performing loans ratio amounted to RMB6,538 million and 0.91%, representing decreases of RMB717 million and 0.41 percentage points over the beginning of the period.

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

(1) The Company took advantage of market opportunities arising from China's economic stimulus package to increase its credit facility for major industries, projects and enterprises and at the same time imposed strict credit limit on industries characterized by heavy pollution, high energy consumption and excessive production capacity ("2 high's 1 excess") and redundant projects of low quality. In the reporting period, around 70% of newly granted corporate loans were directed to industries closely related to the stimulus of domestic demand, such as manufacturing, leasing and commercial services, irrigation, environmental and public utilities, transportation, logistics and postal services, power, gas and water generation and supply, public administration and social organizations, and wholesale and retail business.

(2) In response to the trend of progressive development of the regional economy, the Company increased credit facilities to the central and western regions of China. As at the end of the reporting period, outstanding loans granted to the central and western regions of China increased significantly by over 60% as compared with the beginning of the year and their proportion of general loans significantly increased by 3.5 percentage points as compared with the same period in the previous year.

(3) The Company encouraged credit support for projects of the "real economy". The Company strategically allocated its credit facilities to selected government-guaranteed projects, including government financing projects, land reserve, local transportation departments, highway departments and utilities projects, which are all classified under the category of government-guaranteed projects. The credit facilities were subject to the approval by the head office of the Company according to a set of standard procedures. The Company adopted a pre-approval system to eliminate projects supported by low level government agencies, with poor financial status or insufficient collateral. Credit approval was strictly controlled. In addition,

the Company optimized the resources for this kind of credit business over China as a whole through organising internal syndicated loan facilities to minimize inefficient credit provision by individual operating units.

(4) The Company took measures to optimize the mechanism by which the credit is granted, so as to increase the availability of general loans for provision to key customers. These measures included tightening bills, reallocating recovered credit limits, transferring loan portfolios, and establishing leading bank syndicated loans.

2. *Corporate deposits*

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

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

*3. Non-interest income businesses*

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

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

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

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

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

4. *Operation of the SBUs*

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

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

(1) Real Estate Finance SBU

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

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

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

(2) Energy Finance SBU

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

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

(3) Transportation Finance SBU

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

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

(4) Metallurgy Finance SBU

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

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

(5) SME Finance SBU

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

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

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

(6) Trade Finance SBU

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

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

5. *Featured Businesses*

(1) Trade finance services

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

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

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

(2) Transactional finance

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

(3) Bills business

Bills business is a traditional and specialized featured business of the Company. In the reporting period, the Company has introduced innovative products, strengthened risk control, improved profitability and provided integrated bill solutions. The department fully leveraged on the marketisation of interest, various forms and channels of the bills factoring market. Three new bill products, such as Fast and Easy Bill Discounting (快易貼), Safe Bill Discounting (貼現保) and Bill Discounting with Interests Paid by Entrusted Third Party (委託第三方付息),

were launched in the year. To promote the bill business further, the Company put more efforts in marketing and enhanced risk management. In the reporting period, net revenue from bills was RMB1,460 million and the clients of the bill business reached 6,450, increasing by 4,448 as compared with 2008. No operational risk was encountered.

6. *Corporate banking customers base*

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

7. *Development of business team of corporate banking*

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

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

### *(II) Retail business*

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

*1. Retail loans*

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

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

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

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

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

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

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

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

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

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

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

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

2. *Retail deposits*

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

3. *Debit card business*

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

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

4. *Credit card business*

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

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

5. *Agency business*

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

6. *Customers and related activities*

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

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

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

7. *Private banking business*

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

### *(III) Treasury business*

1. *Transactions*

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

2. *Investments*

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

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

3. *Wealth management*

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

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

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

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

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

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

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

4. *Underwriting of bills and bonds*

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

5. *Transactions in gold and other precious metals*

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

### *(IV) E-banking services*

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

In the reporting period, the Company launched a dedicated corporate customer service telephone line "4006895568", becoming the first commercial bank to launch a service telephone line dedicated to corporate customers in the PRC. Based on the first generation of USB Key, the Company developed a new driver-free USB Key with preloaded certificate. The USB Key is ready to use on computers without installing any drivers or downloading any digital certificate. During the 11th National Games, the Company launched a driver-free and certificate preloaded U Key, bearing the colourful logo of the Games. It was designed to be both a U key and a souvenir. The Company also introduced a transaction control system and an active phishing monitoring service to provide a comprehensive solution to the risks in or arising from electronic banking. The debit card online shopping mall was launched to provide internet banking customers with shopping and internet banking bonus point redemption service.

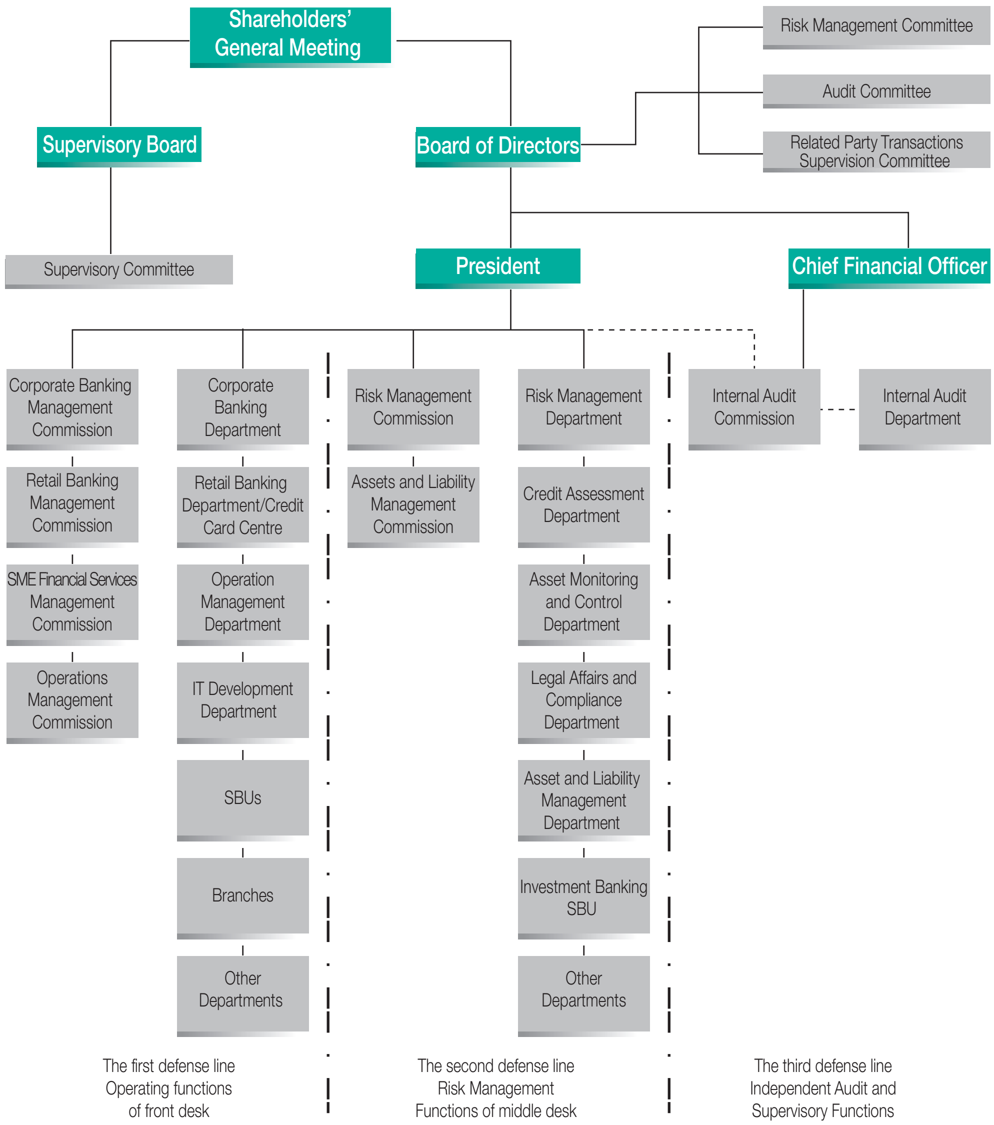
In the reporting period, the Company received many honours for its e-banking business from the industry. In the Annual Comprehensive Evaluation of Online Bank organized by the Chinese Finance Certification Agency, the Company received the 2009 Award for the PRC Online Bank with Best Security (2009年中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

## X. Risk management

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

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

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




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

### *(I) Credit risk*

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

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

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

### *(II) Liquidity risk*

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

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

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

### *(III) Market risk*

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

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

Statement of Interest Rate Sensitivity Gap Position of Banking Accounts

*(Unit: RMB million)*

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

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

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

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

***(IV) Operational risk***

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

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

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

***(V) Implementation of New Basel II Accord***

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

### *(VI) Anti-money laundering*

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

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

## XI. Prospects and measures

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

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

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

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

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

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

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

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

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

### *(II) Our major measures*

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

1. Closely monitor the market and adjust our operation accordingly. To keep abreast of the changing external environment, in particular, the uncertainties arising from policy changes, the Company will proactively reinforce research and analysis efforts to maintain strategic and orderly development of business. While boosting business growth, the Company will endeavour to optimize structures, develop characteristics and enhance operation efficiency.

2. Centralize the allocation of resources and restructure the business to promote key businesses. Adhering to our strategic focus, the Company will expedite the development of the privately-owned businesses, small and micro-businesses, and high-end customers. To tap the market of private businesses, the Company will build up its customer base and develop operation system to foster strategic cooperation. The Company will launch innovative financial products and services designed for SMEs. The Company will make the Shang Dai Tong business model a long-lasting one, and streamline small and micro-business management system and operation system. While expediting the consolidation of retail business resources, the Company will standardize the service system and development plan to establish a comprehensive and multi-layered platform for high end retail products.

3. The Company will continue to introduce innovations to the SBU business model to further enhance overall operation effectiveness and efficiency. Through strengthening internal cooperation of SBU, the Company will capture every market opportunity to unveil collective contractual development, further enriching credit assets operation, reducing capital requirement and optimizing income structure.

4. The Company will further develop the debt business to optimize the structure of the assets business. The Company will adopt effective measures to promote the growth of deposits and increase treasury deposits, settlement deposits and retail deposits. By establishing a marketing platform for group customers, the Company will proactively explore the market in opportunities for stable industries with high growth potentials.

5. The Company will speed up product innovation to increase income from intermediary business through various channels. The Company will reinforce the examination and management of product innovation to streamline the innovation and optimization process of products and boost business development. Through expanding business chain and integrated financial services, the Company will seek to develop business with high revenue emerging markets and expedite consolidation of inter-bank business.

6. The Company will optimize resources allocation to maintain an appropriate gearing ratio. Through measures such as pricing and credit policies, the Company will effectively regulate the growth of deposits and loans, maturity profile and utilization rates. Through efficient financial resources allocation, the Company will offer priorities to important and promising businesses pursuant to our financial policies. The Company will also adopt cost classification and authority control systems to tighten operating cost control and reduce the cost-to-income ratio.

7. The Company will strengthen its risk control to maintain healthy business development. According to the economic policy of the central government and the requirements of regulatory authorities, the Company will fortify risk controls over key industries, regions and customers in a proactive and preventive manner. We will also strengthen the management of non-performing loans for a better recovery rate. Overall compliance examination and examination of internal controls of new businesses and new products will be conducted.

8. Capital management will be enhanced to improve overall operation profitability. The Company manages its business under the constraint of its capital level. The Company examines the risk-adjusted income and added value of its operation units with a view to maximizing capital and resources utilization rate as well as reducing misappropriation of capital. Capital management will play an important role in business development planning, performance assessment and resources allocation.

9. The Company will further improve its comprehensive risk management system to upgrade the technology of risk management. The Company will devise a 3-year risk management plan and coordinate the implementation of the New Basel II Accord to

improve the internal rating of credit risks and the management of market, operational and reputation risks and to adopt a risk evaluation of operating units. To cope with business transformation and procedural management, the Company will build up a risk limit management system for all kinds of risks.

10. The Company will enhance the coordination of internal restructuring and the development of process-based banking operations. The Company will move forward SBU reform to enhance internal cooperation and business development. Through optimization of the middle and back-office operation system, the Company intends to streamline the operation structure, management and procedures to realize scientific, systematic and procedural reforms. The Company will also work on all supporting systems as the groundwork for new core systems.

11. The Company will actively expand its network of branches and sub-branches and develop human resources to support the expansion. The Company will accelerate setting up of branches, tier-two branches, sub-branches and sub-branches at county level, to facilitate the strategic transformation. In addition, the Company also seeks to establish a sustainable workforce for its business development by internal promotion, recruitment, redeployment and training of employees.

12. The Company expands its market coverage by establishing banks in rural areas. In response to the CBRC policy of promoting the development of a new rural financial system, the Company proactively explores market opportunities. On the basis of Pengzhou Minsheng Township Bank Co., Ltd., Cixi Minsheng Township Bank Co., Ltd. and Shanghai Songjiang Minsheng Township Bank Co., Ltd., the Company will set up more township banks in villages and towns in Eastern, Central and Western China. Also, the Company will seek to develop a management system and organization structure to support the operation of township banks in rural areas.

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

# OTHERS

## I. Purchase, Sale or Redemption of the Company's Listed Securities

During the reporting period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## II. Profit Appropriation Plan and Closure of Register of H Shares

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

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

In order to determine the entitlement of holders of H Shares to the above-mentioned bonus shares and cash dividend, the register of H Shares of the Company will be closed from Friday, 25 June, 2010 to Wednesday, 30 June, 2010 (both days inclusive), during such period no transfer of H Shares will be registered. Unregistered holders of H Shares who wish to be entitled to the bonus shares and the cash dividend must lodge the transfer documents accompanied by the relevant share certificates with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Unit 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Thursday, 24 June, 2010.

## III. AGM and Closure of Register of H Shares

The AGM of the Company will be held on Friday, 18 June, 2010. Shareholders whose names appear on the register of members of the Company as at Friday, 11 June, 2010 are entitled to attend the AGM and vote in respect of all resolutions proposed at the AGM. In order to determine the entitlement of holders of H Shares to attend the AGM, the register of H Shares of the Company will be closed from Wednesday, 19 May, 2010 to Friday, 18 June, 2010 (both days inclusive), during such period no transfer of H Shares will be registered. Unregistered holders of H Shares who wish to attend and vote at the AGM must lodge the transfer documents accompanied by the relevant share certificates with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Unit 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 18 May, 2010.

## IV. Code on Corporate Governance Practices

During the reporting period, the Company has complied with the code provisions set out in the "Code on Corporate Governance Practices" in Appendix 14 to the "Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited" (the "Hong Kong Listing Rules").

## V. Audit Committee

The Audit Committee of the Company has reviewed the 2009 annual results of the Group and the financial statements for the year ended 31 December, 2009 prepared in accordance with the International Financial Reporting Standards.

## VI. Publication of Annual Results and Annual Report

This results announcement is published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company's website (www.cmbc.com.cn).

The Company's 2009 annual report containing all the information required under the Hong Kong Listing Rules will be despatched to holders of H shares and published on the websites of the Company and The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board
**CHINA MINSHENG BANKING CORP., LTD.**
**Dong Wenbiao**
*Chairman*

Beijing, 19 April 2010

*As at the date of this announcement, the executive directors of the Company are Mr. Dong Wenbiao, Mr. Hong Qi and Mr. Liang Yutang; the non-executive directors of the Company are Mr. Zhang Hongwei, Mr. Lu Zhiqiang, Mr. Liu Yonghao, Mr. Wang Yugui, Mr. Chen Jian, Ms. Wong Hei, Mr. Shi Yuzhu, Mr. Wang Hang and Mr. Wang Junhui; and the independent non-executive directors of the Company are Mr. Andrew Wong, Mr. Wang Songqi, Mr. Liang Jianquan, Mr. Wang Lihua, Mr. Qin Rongsheng and Mr. Han Jianmin.*

* *For identification purpose only*