DBS BANK (CHINA) LIMITED

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS FOR THE YEAR ENDED 31 DECEMBER 2011

[English translation for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.]

DBS BANK (CHINA) LIMITED

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS FOR THE YEAR ENDED 31 DECEMBER 2011

pwc

普华永道

(English Translation For Reference Only)

Auditor's Report

PwC ZT Shen Zi (2012) No. 20885

To the Board of Directors of DBS Bank (China) Limited,

We have audited the accompanying financial statements of DBS Bank (China) Limited (hereinafter "the Bank"), which comprise the balance sheets as at 31 December 2011, the income statements, the cash flow statements and the statements of changes in equity for the year then ended and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

普华永道中天会计师事务所有限公司
PricewaterhouseCoopers Zhong Tian CPAs Limited Company, 11/F PricewaterhouseCoopers Center
2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
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pwc 普华永道

(English Translation For Reference Only)

AUDITOR'S REPORT
(continued)

PwC ZT Shen Zi (2012) No. 20885
(Page 2 of 2)

To the Board of Directors of DBS Bank (China) Limited,

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai , the People's Republic of China

31 January 2012

DBS BANK (CHINA) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2011
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

ASSETS	**Notes**	**31 December 2011**	**31 December 2010**
Cash and deposits with the central bank	8	12,914,302,009	8,383,737,580
Deposits with other banks	9	7,168,349,714	9,274,430,091
Placements with other banks	10	11,365,617,965	5,862,563,162
Trading assets	11	4,140,232,322	917,949,603
Assets purchased under resale agreements	12	2,594,928,756	297,000,000
Investment securities - available-for-sale	13	2,550,693,786	2,625,520,346
Derivative assets	14	1,805,640,590	1,604,509,862
Interest receivable	15	500,294,738	236,789,813
Loans and advances	16	39,655,863,560	31,874,549,804
Fixed assets	17	81,670,710	60,138,442
Long-term prepaid expenses	18	29,914,310	28,753,145
Deferred income tax assets	19	279,426,309	171,634,340
Other assets	20	159,339,991	147,717,681
TOTAL ASSETS		83,246,274,760	61,485,293,869

DBS BANK (CHINA) LIMITED

BALANCE SHEET (continued)
AS AT 31 DECEMBER 2011
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

LIABILITIES	Notes	31 December 2011	31 December 2010
Due to other banks and financial institutions	21	1,685,173,388	74,809,184
Placements from other banks	22	13,289,545,420	12,643,883,510
Assets sold under repurchase agreements	23	1,292,833,499	-
Derivative liabilities	14	1,741,115,557	1,563,672,549
Due to customers	24	57,903,579,779	41,494,672,336
Payroll and welfare payable	25	91,247,723	73,576,267
Taxes payable	26	224,821,551	69,064,300
Interest payable	27	568,468,396	263,899,448
Other liabilities	28	1,162,621,967	559,331,847
TOTAL LIABILITIES		77,959,407,280	56,742,909,441
OWNER'S EQUITY			
Paid-in capital	29	4,000,000,000	4,000,000,000
Capital surplus	30	(6,410,616)	(23,673,801)
Surplus reserve	31	129,327,810	76,605,823
General reserve	32	476,000,000	320,600,000
Undistributed profits	33	687,950,286	368,852,406
TOTAL OWNER'S EQUITY		5,286,867,480	4,742,384,428
TOTAL LIABILITIES AND OWNER'S EQUITY		83,246,274,760	61,485,293,869

The accompanying notes form an integral part of these financial statements.

Chairman
Dominic Ho

President / CEO:
Melvin Teo

Head of Finance:
Marisa Wu

DBS BANK (CHINA) LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

	Notes	2011	2010
Interest income	34	3,356,642,921	1,666,559,780
Interest expense	34	(1,149,917,854)	(536,077,383)
Net interest income		2,206,725,067	1,130,482,397
Fee and commission income	35	230,400,949	123,684,534
Fee and commission expenses	35	(39,894,369)	(17,390,716)
Net fee and commission income		190,506,580	106,293,818
Investment gains/(losses)	36	68,129,751	(19,751,899)
Fair value losses	37	(329,186,138)	(116,266,325)
Net (losses)/gains from foreign exchange and derivative transactions	38	(222,376,435)	59,539,406
Operating income		1,913,798,825	1,160,297,397
Business tax and levies		(142,636,873)	(87,064,961)
General and administrative expenses	39	(1,033,966,789)	(779,192,853)
Impairment (charge)/reversal for credit losses	40	(34,257,319)	29,051,985
Operating expense		(1,210,860,981)	(837,205,829)
Operating profit		702,937,844	323,091,568
Non-operating income		6,264,087	25,359,631
Non-operating expenses		(1,612,196)	(1,574,165)
Total profit		707,589,735	346,877,034
Less: Income tax	41	(180,369,868)	(84,162,541)
Net profit		527,219,867	262,714,493
Other comprehensive income/(losses)	30	17,263,185	(46,245,144)
Total comprehensive income		544,483,052	216,469,349

The accompanying notes form an integral part of these financial statements.

Chairman
Dominic Ho

President / CEO:
Melvin Teo

Head of Finance:
Marisa Wu

DBS BANK (CHINA) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

		Notes	2011	2010
1	**Cash flows from operating activities**			
	Net increase in customer deposits and due to other banks		17,653,459,664	20,516,728,346
	Net decrease in trading assets		-	508,823,068
	Net increase in placements from other banks		645,661,910	1,717,154,218
	Net increase in assets sold under repurchase agreements		1,262,169,164	-
	Interest received		3,093,137,996	1,533,839,843
	Fee and commission received		234,764,656	123,684,534
	Cash received relating to other operating activities		647,394,028	389,191,660
	Sub-total of cash inflow		23,536,587,418	24,789,421,669
	Net increase in loans and advances		(7,857,774,603)	(4,035,895,024)
	Net increase in trading assets		(3,204,491,842)	-
	Net increase in deposits with the central bank and other banks		(4,133,685,836)	(4,375,302,387)
	Net increase in assets purchased under resale agreements		(2,200,924,851)	(297,000,000)
	Net increase in placements with other banks		(4,903,863,318)	(3,751,105,436)
	Interest paid		(845,348,906)	(363,128,131)
	Fee and commission paid		(39,894,369)	(17,390,716)
	Cash paid to employees		(570,771,647)	(386,861,703)
	Payment of taxes		(280,795,854)	(162,148,400)
	Cash paid relating to other operating activities		(458,982,798)	(294,614,987)
	Sub-total of cash outflow		(24,496,534,024)	(13,683,446,784)
	Net cash (used in)/provided from operating activities	42	(959,946,606)	11,105,974,885

STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2011
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

		Notes	2011	2010
2	**Cash flows from investing activities**			
	Cash received from disposal of investment securities - available-for-sale		686,193,646	392,686,052
	Cash received from disposal of fixed assets		-	12,000,000
	Sub-total of cash inflows		686,193,646	404,686,052
	Cash paid for purchase of investment securities		(591,412,077)	(3,088,041,680)
	Cash paid for purchase of fixed assets and other long-term assets		(58,957,709)	(8,959,352)
	Sub-total of cash outflow		(650,369,786)	(3,097,001,032)
	Net cash provided from/(used in) investing activities		35,823,860	(2,692,314,980)
3	**Net cash flows from financing activities**		-	-
4	**Effect of foreign exchange rate changes on cash and cash equivalents**		(185,887,553)	(53,015,058)
5	**Net (decrease)/increase in cash and cash equivalents**		(1,110,010,299)	8,360,644,847
	Add: Cash and cash equivalents at beginning of year		12,240,749,719	3,880,104,872
6	**Cash and cash equivalents at end of year**	42	11,130,739,420	12,240,749,719

The accompanying notes form an integral part of these financial statements.

Chairman	President / CEO:	Head of Finance:
Dominic Ho	Melvin Teo	Marisa Wu

DBS BANK (CHINA) LIMITED

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

	Paid-in capital Note 29	Capital surplus Note 30	Surplus reserve Note 31	General reserve Note 32	Undistributed profits Note 33	Total owners' equity
Balance at 1 January 2010	4,000,000,000	22,571,343	50,334,374	319,600,000	133,409,362	4,525,915,079
Net profit for the year of 2010	-	-	-	-	262,714,493	262,714,493
Other comprehensive income - revaluation reserve for available-for-sale securities	-	(46,245,144)	-	-	-	(46,245,144)
Transfer to general reserve	-	-	-	1,000,000	(1,000,000)	-
Transfer to surplus reserve	-	-	26,271,449	-	(26,271,449)	-
Balance at 31 December 2010	4,000,000,000	(23,673,801)	76,605,823	320,600,000	368,852,406	4,742,384,428
Net profit for the year of 2011	-	-	-	-	527,219,867	527,219,867
Other comprehensive income - revaluation reserve for available-for-sale securities	-	17,263,185	-	-	-	17,263,185
Transfer to general reserve	-	-	-	155,400,000	(155,400,000)	-
Transfer to surplus reserve	-	-	52,721,987	-	(52,721,987)	-
Balance at 31 December 2011	4,000,000,000	(6,410,616)	129,327,810	476,000,000	687,950,286	5,286,867,480

The accompanying notes form an integral part of these financial statements.

Chairman
Dominic Ho

President / CEO:
Melvin Teo

Head of Finance:
Marisa Wu

1 GENERAL INFORMATION

DBS Bank (China) Limited (the "Bank") was established as a wholly-owned subsidiary of DBS Bank Ltd. ("DBS Bank") in Shanghai, China.

Prior to the establishment of the Bank and the transfer of business (the "conversion"), DBS Bank had three branches (Shanghai, Beijing and Guangzhou) and DBS Bank (Hong Kong) Ltd. ("DBS HK") had two branches (Shenzhen and Suzhou) in the People's Republic of China ("PRC") (collectively known as the "Former Branches"). On 22 December 2006, the Bank obtained an approval from the China Banking Regulatory Commission ("CBRC") to be incorporated as a wholly-owned subsidiary of DBS Bank by consolidating the two branches of DBS Bank (Beijing and Guangzhou) and two branches of DBS HK (Shenzhen and Suzhou). The Shanghai Branch of DBS Bank was permitted to maintain its branch status to carry on its foreign currency business (the "Retained Branch").

The Bank obtained its finance approval license No. 00000042 from the CBRC and obtained its business license (Shi Ju) Qi Du Hu Zong Zi No. 044272 with a non-restricted operating period from the Shanghai's State Administration of Industry and Commerce on 22 May 2007 and 24 May 2007, respectively. The registered/paid-up capital of the Bank is RMB 4 billion.

The Bank's operating period is non-restricted according to its business license. It is principally engaged in the provision of foreign currency and Renminbi banking businesses as approved by the related regulators.

Currently, the Bank has nine branches and fifteen sub-branches located in Shanghai, Beijing, Shenzhen, Suzhou, Guangzhou, Tianjin, Nanning, Dongguan and Hangzhou of the PRC.

2 BASIS OF PREPARATION

The financial statements was prepared in accordance with the "Accounting Standards for Business Enterprises - Basic Standard" and 38 specific standards promulgated by the Ministry of Finance of the People's Republic of China ("MOF") on 15 February 2006, the application guidance and interpretations issued up to date, and other relevant requirements (here after collectively referred to as "Accounting Standards for Business Enterprises").

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Bank for the year ended 31 December 2011 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Bank as of 31 December 2011 and of the financial performance, cash flows and other information for the year then ended.

4 PRINCIPAL ACCOUNTING POLICIES

A Accounting period

The Bank's accounting period starts on 1 January and ends on 31 December.

B Functional currency

The Bank uses Renminbi ("Rmb") as its functional currency.

C Foreign currency translation

Foreign currency transactions are translated into Rmb at the spot exchange rates at the dates of the transactions.

Monetary items denominated in foreign currencies are translated into Rmb at the spot exchange rates at the balance sheet dates and translation differences are recorded in the income statement. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into Rmb at the spot exchange rates prevailing on transaction dates. Contributions to paid-in capital made in foreign currencies are translated into the.Rmb denominated paid-in capital account at the stipulated exchange rates at the contribution dates.

D Cash and cash equivalents

Cash and cash equivalents refer to assets balances with original maturities of three months or less from the date of acquisition including: cash, non-restricted balances with the central bank, deposits with other banks and placements with other banks.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities

(1) Financial assets and financial liabilities at fair value through profit or loss

This category includes: financial assets and financial liabilities held for trading, derivatives and those designated at fair value through profit or loss at inception.

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

Financial assets or financial liabilities except for hybrid instruments are designated at fair value through profit or loss when:

- Doing so significantly reduces the inconsistencies of the gain and losses recognized in the income statements which resulted from the different measurement basis of these financial assets and liabilities;

- Certain financial assets or financial liabilities portfolios that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Financial assets or financial liabilities at fair value through profit or loss are measured at fair value at the initial recognition and subsequent balance sheet dates, and changes in fair value and the transaction costs are reported in income statement.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including deposits with the central bank, deposits with other banks, placements with other banks, reverse repos, loans and advances and investment securities classified as loans and receivables. When the Bank provides funds or services directly to customers and does not intend to sell the receivables, the Bank classifies such financial assets as loans and receivables and recognises them at fair value plus transaction costs at initial recognition. At subsequent balance sheet dates, such assets are measured at amortised cost using effective interest method less any impairment allowances.

(3) Available-for-sale financial assets

Financial assets classified as available-for-sale are those that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition, and are subsequently measured at fair value at balance sheet dates. Gains and losses arising from changes in the fair value of financial assets classified as available-for-sale financial assets are recognized directly in equity after deducting tax impact, until the financial assets are de-recognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in the income statement.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

E Financial assets and financial liabilities(continued)

(4) Held-to-maturity financial assets

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has both the positive intention and the ability to hold to maturity. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition, and are measured at amortized cost, after deducting the allowance for impairment losses subsequently.

Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Bank fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Bank shall reclassify the entire held-to-maturity portfolio into available-for-sale investments at fair value and the Bank is further prohibited to designate any investments as held-to-maturity during the following two financial years.

(5) Other financial liabilities

Other financial liabilities are recognized initially at fair value, being their issuance proceeds net of transaction costs incurred. They are subsequently stated at amortized cost and any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

(6) De-recognition of financial assets and financial liabilities

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or transferred and the Bank has transferred substantially all risks and rewards of ownership.

(7) Fair value of financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair values of quoted investments in active markets are based on current bid prices. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

F Impairment of financial assets

(1) Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The major criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties of the issuer; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in income statement. In practice, the Bank will also determine the fair value of the financial assets with the observed market value and assessed the impairment loss with that fair value.

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

4 PRINCIPAL ACCOUNTING POLICIES (continued)

F Impairment of financial assets (continued)

(1) Assets carried at amortised cost (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of the portfolio's future cash flow should reflect changes related to the observed data of the phase change with the changes in direction and consistency. Expected to reduce differences between estimated losses and the actual losses, the Bank performs periodic review of the theory and hypothesis of the expected future cash flow.

When a loan is unrecoverable, it is written off against the related allowance on impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the Impairment losses for loans and advances in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

(2) Assets carried at fair value

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

4 PRINCIPAL ACCOUNTING POLICIES (continued)

G Offsetting financial instruments

Financial assets and financial liabilities are separately presented in the balance sheet without any offsetting, except when:

(i) there is a legally enforceable right to set off the recognized amounts; or

(ii) there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

H Derivative financial instruments

Derivatives are initially recognised at fair value on the date at which a derivative contract is entered into and are subsequently re-measured at their fair value. Gain or losses from changes in the fair value are recorded in the income statement.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits or losses on day 1.

Certain derivatives are embedded in the non-derivative financial instruments (i.e. host contracts) and the embedded derivative and the corresponding host contract are collectively referred to as hybrid financial instruments. An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

The unrealized gain or loss arising from fair value measurement of separate derivative instrument is reported as the "fair value gains or losses" in the income statement.

I Fixed assets

Fixed assets comprise buildings, office equipment and furniture and computers. Fixed assets purchased or constructed by the Bank are initially recorded at cost.

Subsequent costs are included in the asset's carrying amount, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. However, the carrying amount of any parts of fixed assets that are being replaced shall be derecognised and all related subsequent costs are expensed when incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For impaired fixed assets, depreciation is calculated based on carrying amounts after deducting the provision for impairment over their estimated remaining useful lives.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

I Fixed assets (continued)

Estimated useful lives, estimated residual value and annual depreciation rates are as follows:

	Estimated useful lives	Estimated residual value	Depreciation rate
Buildings	42 years	10%	2.14%
Office equipment and furniture	5-8 years	10%	11.25-18%
Computers and other electronic equipment	2-5 years	10%	18-45%

The Bank reviews the estimated residual value, useful lives and depreciation method of fixed assets and makes appropriate adjustments on an annual basis.

When the Bank disposes or ceases to use the fixed assets, or does not expect to further benefit from fixed assets, the Bank derecognises the assets. Proceeds from sale, transfer or disposal of fixed assets are recorded in the income statement after deducting carrying value and related taxes.

J Long-term prepaid expenses

Long-term prepaid expenses include leasehold improvement and other expenses that have been incurred but are attributable to current and future periods, and should be amortised over a period of more than one year. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial periods and are presented at cost net of accumulated amortisation.

K Impairment of non-financial assets

Fixed assets or other non-financial assets are reviewed for impairment if there are indications of impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Provision for impairment is determined on individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Once an impairment loss is recognised, it shall not be reversed to the extent of recovery in value in subsequent periods.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

L Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period using its effective interest rate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (e.g., prepayment options, call options and similar options) but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, such as transaction costs and all other premiums or discounts. If the cash flows cannot be estimated, the Bank shall use contractual cash flows in the entire contract period.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

M Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the related service has been provided.

N Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets shall be recognised for deductible losses or tax credits that can be carried forward to subsequent years. The deferred tax assets and deferred tax liabilities at the balance sheet date shall be measured the tax rates that, according to the requirements of tax laws, are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets shall be recognised to the extent that it is probable that future taxable profit will be available against which the deductible losses and tax credits can be utilised.

Deferred income tax related to fair value re-measurement of available-for-sale investments is credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain and loss.

The Bank's deferred income tax assets and liabilities are netted as the amounts are recoverable from or due to the same tax authority.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

O Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the leaser are classified as operating leases.The Bank entered into various operating lease agreements to rent its branches' offices and facilities. Payments made under operating leases are expensed on a straight-line basis over the period of the leases

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lesser by way of penalty is recognized as an expense in the period in which termination takes place.

P Contingent liabilities and acceptances

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

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

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

Q Financial guarantee contracts

The Bank has the following types of financial guarantee contracts: letters of credit and letters of guarantee. These financial guarantee contracts provide for specified payments to be made to reimburse the holder for losses incurred when the guaranteed parties default under the original or modified terms of the specified debt instruments.

The Bank initially recognizes all financial guarantee contracts at fair value in the balance sheet, which is amortised into profit and loss account ratably over the guarantee period. Subsequently, they are carried at the higher of amortised carrying value or the provision required to meet the Bank's guarantee obligation. The changes in carrying value are recorded in the profit and loss account under fee and commission income.

The contractual amounts of financial guarantee contracts are disclosed as off-balance sheet items in Note 43.

R Employee benefits

Employee benefits consist of salary, bonus, allowance and subsidy, social insurance, housing fund, education assistance and any other employee related benefits.

Employee benefits are recognised in the period of services rendered, and are capitalised in costs of assets or charged to income statement based on expected benefits generated from services rendered by employees.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

R Employee benefits (continued)

The Bank participates in social security plans managed by the Municipal Government, including pension, medical, housing and other welfare benefits. The Bank also participates in commercial insurance as a supplement to government managed social insurance. The Bank has no other substantial commitments to its employees.

Certain expatriate executives of the Bank are entitled to an equity-settled, share-based compensation plan operated by the DBS Group, under which the Bank receives services from these executives as consideration for equity instruments of the Group. Equity investments granted and ultimately vested under the plan are recognized in the income statement of the Bank based on the fair value of the equity investments at the date of grant. The expense is amortized over the vesting period with a corresponding adjustment to the payable to head office account.

S Provision

Provisions are recognized when the Bank has a present obligation as a result of past transactions or events, and it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are initially determined using best estimates based on historical experience, taking into consideration the risks, uncertainties and discount effect related to contingencies. Where the effect of discounting future cash flow is significant, provisions shall be determined at the discounted future cash flows. The carrying amount of provision is reviewed, and adjusted if appropriate, to reflect best estimates of the Bank's management at each balance sheet date.

T Segment Reporting

The Bank identifies operating segments based on the internal organization structure, management requirement and internal reporting, then disclose segment information of reportable segment which is based on operating segment.

An operating segment is a component of the Bank : (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions); b) whose operating results are regularly reviewed by the Bank's senior management to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information, including the financial position, the financial performance and cash flows, is available. Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics, and fulfil certain criteria.

The majority of the Bank's business activities are conducted within Shanghai, Beijing, Guangzhou, Shenzhen and Suzhou of the PRC.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgments, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to either the key assumptions discussed below or other estimation uncertainties. It is possible that actual results may require material adjustments to the estimates referred to below.

A Allowance for impairment losses on loans and advances

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

B Fair value of financial instruments

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

C Income taxes

Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in the PRC is subject to tax authority's approval, mainly like the impairment allowance for loans and advances. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

6 AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were authorized for issue by Board of Directors on 31 January 2012.

7 TAXATION

The Bank's business activities are mainly subject to the following taxes:

	Tax rate	Tax basis
Corporate income tax	25%	Taxable income
Business tax	5%	Taxable revenue

Under the relevant regulations of the Corporate Income Tax Law, the corporate income tax rate applicable to Shenzhen Branch is gradually increased to 25% in a 5-year period from 2008 to 2012. The applicable corporate income tax rate for 2011 is 24% (2010: 22%).

8 CASH AND DEPOSITS WITH THE CENTRAL BANK

	31 December 2011	**31 December 2010**
Cash	44,878,394	34,027,974
Statutory deposit reserve with the central bank	10,121,151,514	5,794,898,222
Excessive deposit reserve with the central bank	2,748,272,101	2,554,811,384
	12,914,302,009	8,383,737,580

According to the relevant provisions of the People's Bank of China ("PBOC"), the required reserve ratio for customer deposits denominated in foreign currencies was 5% at 31 December 2011 (31 December 2010: 5%). Such reserve is non-interest-bearing.

According to the relevant provisions of the PBOC, the required reserve ratio for customer deposits denominated in Rmb was 19% at 31 December 2011 (31 December 2010: 16.5 %). Rmb deposit reserve bear interest at annual rate of 1.62%.

These reserve deposits are not available to fund the Bank's day-to-day operations.

(All amounts expressed in Rmb unless otherwise stated)

9 DEPOSITS WITH OTHER BANKS

	31 December 2011	31 December 2010
Deposits with domestic banks	6,657,781,229	8,411,696,798
Deposits with overseas banks	381,462,073	738,042,253
Deposits with overseas related parties	129,106,412	124,691,040
	7,168,349,714	9,274,430,091

10 PLACEMENTS WITH OTHER BANKS

	31 December 2011	31 December 2010
Placements with domestic banks	11,365,617,965	5,862,563,162

11 TRADING ASSETS

	31 December 2011	31 December 2010
At fair value		
PBOC notes	2,297,468,935	-
Bonds issued by policy banks	1,566,508,731	908,349,136
Corporate bonds	224,833,724	-
Treasury bonds	51,420,932	9,600,467
	4,140,232,322	917,949,603

As at 31 December 2011, trading assets amounting to RMB 1,314,325,164 are pledged as collateral under repurchase agreements with other banks and financial institutions. (31 December 2010: nil)

12 ASSETS PURCHASED UNDER RESALE AGREEMENTS

	31 December 2011	31 December 2010
Reverse repos designated at fair value through profit or loss, at fair value	2,594,928,756	297,000,000

According to the Bank's policies, reverse repo and repo transactions conducted by the Bank's trading desk are managed and evaluated together with other trading portfolios on fair value basis. Therefore, the Bank designated such assets and liabilities as fair value through profit or loss.

(All amounts expressed in Rmb unless otherwise stated)

13 INVESTMENT SECURITIES - AVAILABLE-FOR-SALE

	31 December 2011	31 December 2010
At fair value		
PBOC notes	1,345,185,959	1,042,642,552
Medium-terms notes	818,441,010	815,669,684
Bonds issued by Chinese financial institutions	300,689,213	-
Bonds issued by policy banks	49,668,620	403,965,810
Corporate bonds	36,708,984	37,345,252
Short-term bonds(" commercial paper")	-	325,897,048
	2,550,693,786	2,625,520,346

14 DERIVATIVE INSTRUMENTS

The following major derivative instruments are utilized by the Bank for trading purpose:

Foreign exchange forwards represent commitments to purchase/sell foreign exchanges including unsettled spot transactions.

Foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Foreign currency options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange risk. Options may be either exchange-traded or negotiated between the Bank and a customer (OTC).

Interest rate options is a right obtained by the buyer, after payment of a premium, to buy or sell certain interest rate instrument at certain interest rate (price) within its validity period or after expiration.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet 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 Bank's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair value of financial instruments that is not quoted in active markets is determined by using valuation techniques. To the extent practical, cash flow models use only observable data, like interest rate and foreign currency rate, certain data like credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(All amounts expressed in Rmb unless otherwise stated)

14 DERIVATIVE INSTRUMENTS (continued)

The notional amount and fair value of the Bank's derivative financial instruments are as follows:

		Fair value	
31 December 2011	Notional amount	Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forwards and Gold	63,424,375,734	296,211,996	(322,121,587)
Foreign exchange swap	109,286,670,749	545,137,761	(591,433,618)
Foreign exchange options	384,675,965	965,995	(907,373)
Cross-currency swap	203,719,710	2,459,566	(2,378,719)
	173,299,442,158	844,775,318	(916,841,297)
Interest rate derivatives			
Interest rate swaps	194,912,763,860	720,153,061	(712,692,648)
Interest rate cap and floor	20,246,218,884	133,811,709	(6,274)
	215,158,982,744	853,964,770	(712,698,922)
Equity derivatives	2,263,629,483	72,446,726	(77,121,562)
Commodity derivatives	1,060,504,983	34,453,776	(34,453,776)
Total	391,782,559,368	1,805,640,590	(1,741,115,557)

		Fair value	
31 December 2010	Notional amount	Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forwards	13,510,361,378	22,090,871	(104,456,258)
Foreign exchange swap	123,219,898,184	911,524,494	(817,913,723)
Foreign exchange options	2,334,890,718	5,129,163	(4,908,353)
Cross-currency swap	366,883,500	1,513,764	(403,179)
	139,432,033,780	940,258,292	(927,681,513)
Interest rate derivatives			
Interest rate swaps	114,764,592,687	523,335,449	(616,483,996)
Interest rate cap and floor	12,098,748,946	116,884,983	(3,810)
	126,863,341,633	640,220,432	(616,487,806)
Equity derivatives	487,053,090	12,942,007	(8,484,520)
Commodity derivatives	258,123,525	11,089,131	(11,018,710)
Total	267,040,552,028	1,604,509,862	(1,563,672,549)

(All amounts expressed in Rmb unless otherwise stated)

15 INTEREST RECEIVABLE

	31 December 2011	31 December 2010
Interest receivable from:		
Loans and advances	375,498,936	163,393,260
Trading and available-for-sale securities	72,808,921	39,644,530
Deposits and placements with other banks	46,562,317	30,938,816
Deposits with the central bank	5,424,564	2,813,207
	500,294,738	236,789,813

16 LOANS AND ADVANCES

	31 December 2011	31 December 2010
Retail loans		
-Mortgage loans	2,846,888,527	2,926,880,735
-Others	2,703,017,093	3,231,593,252
Retail loans	5,549,905,620	6,158,473,987
Corporate loans and advances		
-Loans	27,981,608,178	24,268,348,722
-Import and export bills	475,966,478	340,937,849
-Discounted bills and others	6,046,584,259	1,548,795,274
Corporate loans	34,504,158,915	26,158,081,845
Total loans	40,054,064,535	32,316,555,832
Individual impairment allowance	(103,793,395)	(229,234,003)
Collective impairment allowance	(294,407,580)	(212,772,025)
Total impairment allowance	(398,200,975)	(442,006,028)
Loans and advances, net	39,655,863,560	31,874,549,804

(All amounts expressed in Rmb unless otherwise stated)

16 LOANS AND ADVANCES (continued)

(1) Industry sector:

	31 December 2011 Balance	%	31 December 2010 Balance	%
Consumer loans	5,549,905,620	14%	6,158,473,987	19%
Manufacturing	14,407,390,969	37%	9,684,822,191	29%
Wholesale and retail business	8,361,605,930	21%	4,452,153,566	14%
Real estate	6,269,939,377	16%	5,787,635,537	18%
Leasing and commercial services	1,563,267,115	4%	1,558,205,219	5%
Resident services and other services	785,738,947	2%	647,816,537	2%
Science research and Technical services	647,793,405	2%	375,411,827	1%
Transportation	595,019,974	1%	525,420,246	2%
Construction	549,397,795	1%	610,384,900	2%
Information and technology	512,510,909	1%	453,316,909	1%
Mining industry	332,649,633	1%	54,589,646	0%
Power, energy and water	196,362,435	0%	225,932,640	1%
Hotel and restaurant	172,006,769	0%	231,173,620	1%
Others	110,475,657	0%	1,551,219,007	5%
Total, gross	40,054,064,535	100%	32,316,555,832	100%

(2) Geographic sector:

	31 December 2011	31 December 2010
Shanghai	19,777,405,245	18,426,492,794
Beijing	7,011,895,004	5,198,843,206
Shenzhen	4,491,148,586	4,323,056,362
Guangzhou	3,093,917,085	2,032,024,397
Tianjin	2,265,911,712	671,031,728
Suzhou	1,831,109,699	1,188,608,524
Others	1,582,677,204	476,498,821
Total, gross	40,054,064,535	32,316,555,832

(3) By type of security:

	31 December 2011	31 December 2010
Clean loans	7,724,595,805	4,341,483,432
With guarantee only	5,731,193,127	5,288,490,184
With collateral only	15,100,629,417	12,164,444,494
With both collateral and guarantee	11,497,646,186	10,522,137,722
Total, gross	40,054,064,535	32,316,555,832

(All amounts expressed in Rmb unless otherwise stated)

16 LOANS AND ADVANCES (continued)

(4) Loans and advances past due:

	31 December 2011				
	Past due up to 90 days	Past due 90 to 365 days	Past due 1 to 3 years	Past due over 3 years	Total
Clean loans	10,987,045	-	-	1,230,368	12,217,413
With guarantee only	8,710,000	-	-	-	8,710,000
With collateral only	176,626,703	15,144,466	27,152,602	745,889	219,669,660
With both collateral and guarantee	113,216,245	101,286,746	30,497,267	13,690,141	258,690,399
	309,539,993	116,431,212	57,649,869	15,666,398	499,287,472

	31 December 2010				
	Past due up to 90 days	Past due 90 to 365 days	Past due 1 to 3 years	Past due over 3 years	Total
Clean loans	-	6,150,000	1,291,461	-	7,441,461
With guarantee only	300,000,000	-	-	-	300,000,000
With collateral only	240,321,190	14,399,182	15,623,547	-	270,343,919
With both collateral and guarantee	163,911,588	21,678,286	186,458,008	5,767,196	377,815,078
	704,232,778	42,227,468	203,373,016	5,767,196	955,600,458

(5) Allowance for impairment losses on loans and advances:

	2011		
	Individually assessed	Collectively assessed	Total
At 1 January	229,234,003	212,772,025	442,006,028
Impairment losses / (reversal) for loans and advances (Note 40)	(5,174,708)	81,635,555	76,460,847
Write-off	(119,128,674)	-	(119,128,674)
Exchange difference	(1,137,226)	-	(1,137,226)
At 31 December	103,793,395	294,407,580	398,200,975

	2010		
	Individually assessed	Collectively assessed	Total
At 1 January	292,261,350	319,040,451	611,301,801
Impairment losses / (reversal) for loans and advances (Note 40)	83,113,514	(103,265,546)	(20,152,032)
Write-off	(145,097,710)	-	(145,097,710)
Exchange difference	(1,043,151)	(3,002,880)	(4,046,031)
At 31 December	229,234,003	212,772,025	442,006,028

(All amounts expressed in Rmb unless otherwise stated)

17 FIXED ASSETS

	Buildings	Office equipment and furniture	Computers and other electronic equipment	Total
Cost				
At 1 January 2011	-	58,202,996	53,137,464	111,340,460
Add: Transfer-in and other additions	-	32,007,628	14,451,524	46,459,152
Less: Disposals/write-off	-	(1,128,453)	(4,343,038)	(5,471,491)
At 31 December 2011	-	89,082,171	63,245,950	152,328,121
Accumulated depreciation				
At 1 January 2011	-	26,836,480	24,365,538	51,202,018
Add: Charge for the year	-	13,162,230	10,785,762	23,947,992
Less: Disposals/write-off	-	(992,135)	(3,500,464)	(4,492,599)
At 31 December 2011	-	39,006,575	31,650,836	70,657,411
Net book value				
At 31 December 2011	-	50,075,596	31,595,114	81,670,710
Cost				
At 1 January 2010	50,255,661	39,837,981	48,498,339	138,591,981
Add: Transfer-in and other additions	-	18,365,015	5,956,652	24,321,667
Less: Disposals/write-off	(50,255,661)	-	(1,317,527)	(51,573,188)
At 31 December 2010	-	58,202,996	53,137,464	111,340,460
Accumulated depreciation				
At 1 January 2010	11,548,186	16,255,621	15,876,427	43,680,234
Add: Charge for the year	81,158	10,580,859	9,674,884	20,336,901
Less: Disposals/write-off	(11,629,344)	-	(1,185,773)	(12,815,117)
At 31 December 2010	-	26,836,480	24,365,538	51,202,018
Net book value				
At 31 December 2010	-	31,366,516	28,771,926	60,138,442

(All amounts expressed in Rmb unless otherwise stated)

18 LONG-TERM PREPAID EXPENSES

	Leasehold improvement	Others	Total
As at 1 January 2011	27,032,332	1,720,813	28,753,145
Additions	21,444,696	-	21,444,696
Transfer-out	(9,498,574)	-	(9,498,574)
Amortization	(10,669,397)	(115,560)	(10,784,957)
As at 31 December 2011	28,309,057	1,605,253	29,914,310
As at 1 January 2010	58,661,281	1,836,373	60,497,654
Additions	7,832,135	-	7,832,135
Transfer-out	(23,194,450)	-	(23,194,450)
Amortization	(16,266,634)	(115,560)	(16,382,194)
As at 31 December 2010	27,032,332	1,720,813	28,753,145

19 DEFERRED INCOME TAX ASSETS

Deferred income taxes is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements using tax rate of 25% (31 December 2010: 25%).

	2011	2010
At beginning of year	171,634,340	170,027,187
Income statement credit/(charge) (Note 41)	113,546,364	(13,807,895)
Available-for-sale securities		
-Fair value re-measurement	(5,754,395)	15,415,048
At end of year	279,426,309	171,634,340

Net deferred income tax assets arose from the following temporary differences:

	31 December 2011	31 December 2010
Allowance for impairment of loans and advances	106,659,921	74,284,197
Fair value measurement of financial assets	121,893,279	39,596,744
Unrecoverable interest income on loans	-	10,693,246
Fair value measurement of available-for-sale securities	9,660,653	15,415,048
Accrued expenses and others	41,212,456	31,645,105
	279,426,309	171,634,340

(All amounts expressed in Rmb unless otherwise stated)

20 OTHER ASSETS

	31 December 2011	31 December 2010
Rental deposits	35,025,770	29,038,126
Receivables from related parties (Note 46(3))	6,492,769	3,455,057
Settlement receivables from customers	31,312,673	9,860,829
Trading assets sold but unsettled	-	50,216,597
Prepaid expenses	35,587,579	48,690,337
Others	50,921,200	6,456,735
	159,339,991	147,717,681

21 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2011	31 December 2010
Deposits from domestic banks	3,012,257	737,166
Deposits from domestic related parties	72,828,614	20,629,958
Deposits from overseas related parties	1,609,332,517	53,442,060
	1,685,173,388	74,809,184

22 PLACEMENTS FROM OTHER BANKS

	31 December 2011	31 December 2010
Placements from domestic banks	4,816,095,100	3,949,395,900
Placements from overseas related parties	8,473,450,320	8,694,487,610
	13,289,545,420	12,643,883,510

23 ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2011	31 December 2010
Repos designated at fair value through profit or loss, at fair value	1,292,833,499	-

According to the Bank's policies, reverse repo and repo transactions conducted by the Bank's trading desk are managed and evaluated together with other trading portfolios on fair value basis. Therefore, the Bank designated such assets and liabilities as fair value through profit or loss.

(All amounts expressed in Rmb unless otherwise stated)

24 DUE TO CUSTOMERS

	31 December 2011	31 December 2010
At amortized cost		
Corporate current deposits	5,803,370,695	6,904,105,767
Corporate time deposits	24,691,675,489	19,041,827,848
Retail current deposits	885,622,127	670,303,867
Retail time deposits	3,927,678,991	2,465,874,225
	35,308,347,302	29,082,111,707
SIPs designated at fair value through profit or loss		
SIPs sold to corporate customers	19,310,999,717	11,069,582,647
SIPs sold to retail customers	3,284,232,760	1,342,977,982
	22,595,232,477	12,412,560,629
	57,903,579,779	41,494,672,336

As at 31 December 2011, the aggregated principal amount of SIPs designated at fair value through profit or loss is RMB 22,030,773,162 (31 December 2010: RMB 12,213,913,296).

25 PAYROLL AND WELFARE PAYABLE

	31 December 2011	31 December 2010
Salary and bonus	87,016,541	63,110,119
Pension benefits	4,231,182	10,466,148
	91,247,723	73,576,267

26 TAXES PAYABLE

	31 December 2011	31 December 2010
Income tax	130,149,475	15,232,872
Business tax and surcharges	50,665,481	22,344,026
Withholding income tax	23,088,019	16,620,183
Withheld individual income tax and others	20,918,576	14,867,219
	224,821,551	69,064,300

27 INTEREST PAYABLE

	31 December 2011	31 December 2010
Due to customers	530,223,117	255,098,371
Due to / placements with other banks and financial institutions	38,245,279	8,801,077
	568,468,396	263,899,448

(All amounts expressed in Rmb unless otherwise stated)

28 OTHER LIABILITIES

	31 December 2011	31 December 2010
Accrued expenses	99,213,708	84,764,057
Unearned commission income	6,778,818	2,415,111
Accounts payable	19,066,423	22,515,204
Payable to overseas related parties (Note 46(3))	1,036,310,886	409,373,226
Others	1,252,132	40,264,249
	1,162,621,967	559,331,847

29 PAID-IN CAPITAL

	31 December 2011	31 December 2010
Registered and fully paid by DBS Bank	4,000,000,000	4,000,000,000

The above registered and paid-in capital has been verified by Ernst & Young Hua Ming CPAs Company Limited.

30 CAPITAL SURPLUS

Upon approval from the Board of Directors, capital surplus, other than those relating to receipts of donated non-cash assets and equity investments held, can be used to increase capital. Capital surplus arising from receipts of donated non-cash assets and equity investments can only be used to increase capital after the donated assets or investments have been disposed.

Revaluation reserve for available-for-sale securities is included in the balance of capital surplus at year end and also reported as "other comprehensive income" in the income statement for 2011. The movement of such revaluation reserve for 2011 is as follows:

	2011	2010
At beginning of year	(46,245,144)	-
Gains from changes in fair value	16,671,611	(72,560,312)
Transferred to income statement on disposal	6,345,969	10,900,120
Deferred income taxes (Note 19)	(5,754,395)	15,415,048
At end of year	(28,981,959)	(46,245,144)

(All amounts expressed in Rmb unless otherwise stated)

31 SURPLUS RESERVE

	2011	2010
At beginning of year	76,605,823	50,334,374
Current year addition	52,721,987	26,271,449
At end of year	129,327,810	76,605,823

In accordance with the Article 167 of Company Law of PRC and the Company's Articles of Association, appropriations from net profit should be made to the Reserve Fund, after offsetting accumulated losses from prior years, and before profit distributions to the parent. The percentages to be appropriated to the Reserve Fund are determined by the Board of Directors of the Bank, but should not be less than 10% of net income after tax before accumulated Reserve Fund reaching 50% or more of the registered capital. Upon approval from the Board of Directors, the Reserve Fund can be used to offset accumulated losses or to increase capital.

32 GENERAL RESERVE

	2011
At beginning of year	320,600,000
Current year addition	155,400,000
At end of year	476,000,000

Pursuant to Circulars No. 49 and No. 90 issued by MOF in 2005 (the "MOF Circulars"), effective from 1 July, 2005, banks and certain other financial institutions in the PRC, are required to maintain adequate allowances for impairment losses against their risk assets. In addition, a general reserve should be established through the appropriation of retained earnings. This general reserve should form part of the owner's equity of financial institutions. As a guiding principle, the balance of general reserve should not be less than 1% of the aggregate amount of all risk assets.

On 27 January 2011, the directors approved the appropriation to the Bank's general reserve of Rmb 155.4 million.

33 UNDISTRIBUTED PROFITS

On 31 January 2012, the directors approved the appropriation to the Bank's general reserve amounting to RMB111.5 million. The general reserve after this appropriation amounts to RMB 587.5million.

(All amounts expressed in Rmb unless otherwise stated)

34 NET INTEREST INCOME

	2011	2010
Interest income:		
Loans and advances	2,501,877,795	1,419,154,439
Due from other banks and financial institutions	532,817,198	115,338,686
Trading assets and investment securities	151,811,621	54,294,469
Deposits with the central bank	170,136,307	77,772,186
	3,356,642,921	1,666,559,780
Interest expense:		
Due to other banks and financial institutions	(216,179,461)	(65,707,682)
Due to customers	(933,738,393)	(470,369,701)
	(1,149,917,854)	(536,077,383)
Net interest income	2,206,725,067	1,130,482,397

35 NET FEE AND COMMISSION INCOME

	2011	2010
Fee and commission income		
Settlement and clearing fees	141,320,964	50,799,718
Credit related fees and commissions	71,740,068	51,728,804
Others	17,339,917	21,156,012
	230,400,949	123,684,534
Fee and commission expense		
Settlement and clearing fees, brokerage expenses	(39,894,369)	(17,390,716)
Net fee and commission income	190,506,580	106,293,818

36 INVESTMENT GAINS/(LOSSES)

	2011	2010
Repos and reverse repos	62,574,313	-
Trading assets	8,618,009	(11,576,809)
Available-for-sale securities	(3,062,571)	(8,175,090)
	68,129,751	(19,751,899)

(All amounts expressed in Rmb unless otherwise stated)

37 FAIR VALUE LOSSES

	2011	2010
Net unrealized losses on derivative instruments	(342,124,263)	(115,655,420)
Net unrealized gains on trading assets	9,172,868	(610,905)
Net unrealized gains on reverse repos and repos	3,765,257	-
	(329,186,138)	(116,266,325)

38 NET (LOSSES)/GAINS FROM FOREIGN EXCHANGE AND DERIVATIVE TRANSACTIONS

	2011	2010
Net (losses)/gains from derivatives and foreign exchange transactions	(222,376,435)	59,539,406

The amount represents net realized losses on derivative transactions during 2011, including mainly foreign exchange and interest rate derivatives.

39 GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Salaries and bonus	(472,143,771)	(325,758,009)
Social insurance and other welfare benefits	(112,293,776)	(70,170,697)
Rental and utilities	(137,214,612)	(112,418,581)
Telecommunications and computers	(128,689,260)	(131,525,309)
Travelling expenses	(18,387,809)	(11,593,861)
Entertainment expenses	(6,710,098)	(4,598,696)
Depreciation and amortization	(34,732,949)	(36,719,095)
Staff training expenses	(4,000,547)	(1,967,370)
Others	(119,793,967)	(84,441,235)
	(1,033,966,789)	(779,192,853)

40 IMPAIRMENT (CHARGE) / REVERSAL FOR CREDIT LOSSES

	2011	2010
(Charge)/reversal of impairment losses on loans and advances (Note 16(5))	(76,460,847)	20,152,032
Recovery of loans previously written-off	42,203,528	8,899,953
	(34,257,319)	29,051,985

(All amounts expressed in Rmb unless otherwise stated)

41 INCOME TAX

	2011	2010
Current income tax	293,916,232	70,354,646
Deferred income tax (Note 19)	(113,546,364)	13,807,895
	180,369,868	84,162,541

The actual income tax expense differs from the theoretical amount that would arise using the standard tax rate of 25%:

	2011	2010
Profit before income tax	707,589,735	346,877,034
Provision for income tax calculated at 25 % (2010: 25%)	176,897,434	86,719,259
Impact of different tax rate in Shenzhen	(647,933)	(4,310,230)
Effect of expenses not deductible for tax purposes	4,120,367	1,753,512
	180,369,868	84,162,541

(All amounts expressed in Rmb unless otherwise stated)

42 NOTES TO THE STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	2011	2010
Cash (Note 8)	44,878,394	34,027,974
Balances with the PBOC other than restricted reserve deposits (Note 8)	2,748,272,101	2,554,811,384
Deposits with other banks with original terms less than three months from acquisition date	5,968,349,714	7,881,862,635
Placements with other banks with original terms less than three months from acquisition date	2,369,239,211	1,770,047,726
Total	11,130,739,420	12,240,749,719

(2) Cash flows from operating activities

	Notes	2011	2010
Net profit		527,219,867	262,714,493
Adjusted by:			
Impairment gains/(losses) on credit losses	40	76,460,847	(20,152,032)
Depreciation and amortization	39	34,732,949	36,719,095
Investment losses for investment securities - available-for-sale	36	3,062,571	8,175,090
Loss/(Gain) on disposal of fixed assets and other long-term assets		1,531,327	(6,495,596)
Fair value losses	37	329,186,138	116,266,325
Deferred income tax expenses / (benefits)	41	(113,546,364)	13,807,895
Increase in operating receivables		(22,491,603,290)	(12,079,757,206)
Increase in operating payables		20,673,009,349	22,774,696,821
Net cash (used in)/provided from operating activities		(959,946,606)	11,105,974,885

(3) Investing and financing activities that do not involve cash receipts and payments

	2011	2010
Investing and financing activities that do not involve cash receipts and payments	-	-

(4) Net (increase) / decrease in cash and cash equivalents:

	2011	2010
Cash and cash equivalents at end of year	11,130,739,420	12,240,749,719
Less: cash and cash equivalents at beginning of year	12,240,749,719	3,880,104,872
Net increase / (decrease) in cash and cash equivalents	(1,110,010,299)	8,360,644,847

(All amounts expressed in Rmb unless otherwise stated)

43 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Off-balance sheet items

	31 December 2011	31 December 2010
Letters of credit issued	10,949,871,136	1,238,743,001
Letters of guarantee issued	1,574,139,685	878,164,966
Irrecoverable loan commitment	1,529,937,525	1,527,067,799
Bank acceptances	1,065,096,451	1,096,503,482
Standby letter of credit	831,650,344	725,021,550
	15,950,695,141	5,465,500,798

(2) Operating lease commitments

Future minimum lease payments under non-cancelable operating leases in respect of office premises are as follows:

	31 December 2011	31 December 2010
Within 1 year	99,225,441	84,558,032
Over 1 year less than 2 years	116,689,524	55,666,333
Over 2 year less than 3 years	73,357,436	64,632,459
Over 3 years	24,007,657	63,999,172
	313,280,058	268,855,996

(3) Legal proceedings

At 31 December 2011, there was no significant legal proceeding against the Bank (31 December 2010: nil).

(4) Capital commitments

As at 31 December 2011, the Bank has no significant capital commitments which require separate disclosure (31 December 2010: nil).

44 EVENTS AFTER THE BALANCE SHEET DATE

Up to 31 January 2012, there were no significant post-balance sheet events which are required to be disclosed in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

45 SEGMENT INFORMATION

For the year ended 31 December 2011	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Others	Elimination	Total
Interest income	145,267,215	2,071,343,016	566,079,949	391,337,518	331,064,018	102,141,174	187,479,196	(438,069,165)	3,356,642,921
Interest expense	(8,800,000)	(926,250,443)	(240,771,414)	(162,471,143)	(136,290,989)	(47,648,778)	(65,754,252)	438,069,165	(1,149,917,854)
Net interest income	136,467,215	1,145,092,573	325,308,535	228,866,375	194,773,029	54,492,396	121,724,944	-	2,206,725,067
Fee and commission income	-	106,493,273	37,114,528	46,343,102	16,009,563	3,632,551	20,807,932	-	230,400,949
Fee and commission expenses	(1,173)	(38,734,190)	(129,193)	(667,377)	(124,028)	(66,607)	(171,801)	-	(39,894,369)
Net fee and commission income	(1,173)	67,759,083	36,985,335	45,675,725	15,885,535	3,565,944	20,636,131	-	190,506,580
Other losses	(30,357,006)	(239,186,765)	(101,069,682)	(38,731,668)	(38,313,092)	(7,913,845)	(27,860,764)	-	(483,432,822)
Operating expenses	(116,483,295)	(619,997,704)	(139,778,859)	(106,756,253)	(122,472,137)	(13,472,212)	(91,900,521)	-	(1,210,860,981)
Non-operating income/(losses)	261,000	3,405,417	1,336,050	(476,159)	(878,313)	(16,208)	1,020,104	-	4,651,891
Total profit/(loss) before tax	(10,113,259)	357,072,604	122,781,379	128,578,020	48,995,022	36,656,075	23,619,894	-	707,589,735
Loans and advances, net	5,800,000	19,633,582,369	6,962,084,201	4,401,386,076	3,006,584,116	1,815,150,248	3,831,276,550	-	39,655,863,560
Total assets	14,606,988,246	57,887,819,978	13,412,768,539	7,414,486,140	8,451,126,657	2,574,780,984	4,626,762,296	(25,728,458,080)	83,246,274,760
Due to customers	-	(32,880,652,711)	(11,460,659,604)	(6,698,164,749)	(3,308,277,671)	(1,636,873,903)	(1,918,951,141)	-	(57,903,579,779)
Total liabilities	(12,241,890,080)	(56,712,821,876)	(12,931,593,995)	(6,837,160,979)	(8,279,745,136)	(2,441,137,272)	(4,243,516,022)	25,728,458,080	(77,959,407,280)
Reversal of / (Impairment charge) for credit losses	-	(12,519,035)	(13,352,173)	20,803,510	(35,570,100)	20,428,641	(14,048,162)	-	(34,257,319)
Depreciation and amortization	(1,083,424)	(19,831,647)	(3,668,107)	(2,322,141)	(2,193,224)	(1,387,812)	(4,246,594)	-	(34,732,949)
Capital expenditure	222,107	32,677,468	5,216,597	5,020,391	9,441,503	444,400	5,382,808	-	58,405,274

(All amounts expressed in Rmb unless otherwise stated)

45 SEGMENT INFORMATION (continued)

For the year ended 31 December 2010	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Others	Elimination	Total
Interest income	60,277,601	929,538,072	221,346,949	271,396,525	174,266,076	62,933,638	51,057,382	(104,256,463)	1,666,559,780
Interest expense	-	(379,479,248)	(88,455,283)	(98,950,767)	(44,832,773)	(17,672,332)	(10,943,443)	104,256,463	(536,077,383)
Net interest income	60,277,601	550,058,824	132,891,666	172,445,758	129,433,303	45,261,306	40,113,939	-	1,130,482,397
Fee and commission income	-	62,103,032	17,758,160	29,420,448	8,394,927	2,037,140	3,970,827	-	123,684,534
Fee and commission expenses	(1,367)	(16,343,525)	(150,271)	(580,105)	(93,723)	(46,109)	(175,616)	-	(17,390,716)
Net fee and commission income	(1,367)	45,759,507	17,607,889	28,840,343	8,301,204	1,991,031	3,795,211	-	106,293,818
Other losses	(19,587,781)	354,358	(16,456,223)	(5,952,676)	(26,201,314)	(5,468,065)	(3,167,117)	-	(76,478,818)
Operating expenses	(91,291,964)	(412,973,908)	(71,575,759)	(112,289,762)	(65,884,069)	(36,525,083)	(46,665,284)	-	(837,205,829)
Non-operating income/(losses)	1,883,232	8,601,031	3,545,431	10,656,933	5,490	(916,546)	9,895	-	23,785,466
Total profit/(loss) before tax	(48,720,279)	191,799,812	66,013,004	93,700,596	45,654,614	4,342,643	(5,913,356)	-	346,877,034
Loans and advances, net	5,800,000	18,178,658,971	5,164,226,941	4,231,887,856	1,992,584,188	1,160,186,114	1,141,205,734	-	31,874,549,804
Total assets	8,988,054,958	41,256,329,620	9,275,443,586	6,528,600,344	7,815,294,389	2,262,163,124	2,538,686,121	(17,179,278,273)	61,485,293,869
Due to customers	-	(24,662,289,601)	(6,962,298,341)	(5,544,180,431)	(2,003,395,507)	(1,322,751,461)	(999,756,995)	-	(41,494,672,336)
Total liabilities	(6,329,291,442)	(40,458,849,532)	(8,917,050,421)	(6,079,853,203)	(7,692,907,890)	(2,165,175,487)	(2,279,059,739)	17,179,278,273	(56,742,909,441)
Reversal of / (Impairment charge) for credit losses	5,800,000	46,174,248	7,414,272	(8,273,271)	(8,199,102)	(10,522,358)	(3,341,804)	-	29,051,985
Depreciation and amortization	(1,058,936)	(18,198,125)	(6,043,061)	(2,420,646)	(2,299,848)	(1,502,797)	(5,195,682)	-	(36,719,095)
Capital expenditure	3,644,568	32,241,499	-	212,316	144,170	84,536	246,860	-	36,573,949

(All amounts expressed in Rmb unless otherwise stated)

45 SEGMENT INFORMATION (continued)

Geographical Information

The Bank's revenue from external customers is mainly from mainland China for 2011 and 2010. As at 31 December 2011 and 2010, all non-current assets of the Bank are located in mainland China.

Business income

	2011	2010
Consumer Banking Group	122,939,800	111,635,002
Institutional Banking Group	1,397,528,722	934,333,378
Treasury and Markets & Treasury Liquidity Management	285,038,188	80,797,116
Others	108,292,115	33,531,901
Total	1,913,798,825	1,160,297,397

46 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties who control the Bank or are controlled by the Bank

Name of entity	Registered location	Main business	Relations with the bank	Registered capital	Chairman of the Board
DBS Bank Ltd.	Singapore	Banking and financial service	Parent company	SGD 16,196 million	Peter Seah Lim Huat

DBS Group Holding Ltd., incorporated in Singapore, is the ultimate parent company of the Bank.

(b) Registered capital of related parties which control the Bank or are controlled by the Bank and their changes

Name of entity	31 December 2010	Change	31 December 2011
DBS Bank Ltd.	SGD 15,945 Million	SGD 251 Million	SGD 16,196 Million

(c) Shares of interest of related parties who control the Bank or are controlled by the Bank and their changes

Name of entity	31 December 2010		Change		31 December 2011	
	Amount	%	Amount	%	Amount	%
DBS Bank Ltd.	Rmb 4 Billion	100	-	-	Rmb 4 Billion	100

(d) Nature of related parties which do not control the Bank or are controlled by the Bank

Names of related parties	Relationship with the Bank
DBS Bank (Hong Kong) Limited	Company controlled by the parent company

(All amounts expressed in Rmb unless otherwise stated)

46 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(e) Related party transactions

(1) Pricing policy

The major transactions entered into by the Bank with its related parties are inter-bank borrowing and lending, and derivative transactions. The terms of inter-bank borrowing and lending, and derivative transactions with related parties follow commercial terms arranged in the ordinary course of the Bank's business.

(2) Significant related party transactions

(i) Interest income

	2011	**2010**
DBS Bank Ltd.	244,609	3,232
DBS Bank (Hong Kong) Limited	18,547	7,727
	263,156	10,959

(ii) Interest expense

	2011	**2010**
DBS Bank Ltd.	64,500,899	9,327,573
DBS Bank (Hong Kong) Limited	2,224,443	18,888,556
	66,725,342	28,216,129

(iii) Service charge

	2011	**2010**
DBS Bank Ltd.	39,969,508	54,704,846
DBS Bank (Hong Kong) Limited	10,524,916	11,726,442
	50,494,424	66,431,288

(3) Balances with related parties

(i) Due from

	31 December 2011	**31 December 2010**
DBS Bank Ltd.	76,659,379	93,613,120
DBS Bank (Hong Kong) Limited	52,447,033	31,077,920
	129,106,412	124,691,040

(ii) Other receivables

	31 December 2011	**31 December 2010**
DBS Bank Ltd.	3,675,971	638,621
DBS Bank (Hong Kong) Limited	2,816,798	2,816,436
	6,492,769	3,455,057

(All amounts expressed in Rmb unless otherwise stated)

46 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(3) Balances with related parties (continued)

(iii) Deposits / placements from

	31 December 2011	31 December 2010
DBS Bank Ltd.	9,269,842,364	7,430,106,718
DBS Bank (Hong Kong) Limited	885,769,087	1,338,452,910
	10,155,611,451	8,768,559,628

(iv) Interest payable

	31 December 2011	31 December 2010
DBS Bank Ltd.	35,782,030	2,716,953
DBS Bank (Hong Kong) Limited	30,013	358,333
	35,812,043	3,075,286

(v) Other payables

	31 December 2011	31 December 2010
DBS Bank Ltd.	1,031,175,873	403,375,454
DBS Bank (Hong Kong) Limited	5,135,013	5,997,772
	1,036,310,886	409,373,226

(vi) Derivative transactions

	31 December 2011	
	Notional amount	Fair value
Derivative transactions	40,146,932,426	100,490,747

	31 December 2010	
	Notional amount	Fair value
Derivative transactions	30,857,067,417	146,973,991

47 FINANCIAL RISK MANAGEMENT

47.1 Risk governance

Under the Bank's risk governance framework, the Board of Directors, through the Board Risk Management Committee ('China BRMC'), oversees the establishment of robust enterprise-wide risk management policies and processes, and sets risk limits to guide risk-taking within the Bank.

Management is accountable to the Board for ensuring the effectiveness of risk management and adherence to the risk appetite limits. To provide risk oversight, senior management committees are mandated to focus on specific risk areas. These oversight committees are the China Credit Risk Committee ('CCRC'), the China Market Risk Committee ('CMRC'), the China Operational Risk Committee ('CORC') and the China Asset & Liability Committee ('ALCO').

On a day-to-day basis, business units have primary responsibility for risk management. In partnership with the business units, independent control functions provide senior management with a timely assessment of key risk exposures and the associated management responses. These units also recommend risk appetite and control limits for approval in line with the risk management framework, as well as supplemented policies and procedures to identify, measure, analyse, and control risk of the bank.

47.2 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty may fail to discharge an obligation, resulting in financial losses to the Bank. Significant changes in the economy, or in a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit exposures arise principally in loans and advances, debt securities and due from banks and other financial institutions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The majority of the Bank's operation is located within the various major cities across China. However different areas in China have their own unique characteristics in economic development, management therefore closely monitors its exposure to credit risk. China Credit department at Head Office centrally coordinates the Bank's credit risk management functions and reports to the Bank's senior management via China Credit Risk Committee. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrowers. Such risks are monitored on a regular basis and subject to an annual review.

47 FINANCIAL RISK MANAGEMENT (continued)

47.2 Credit risk (continued)

A Credit risk measurement

(i) *Loans and advances and off balance exposures*

The Bank uses internal rating system adopted by the group to identify, out of the 11 broad ratings in the system, the risk rating of the borrowers. At the same time, the Bank also assigns loan grade to each facility under a five grade asset classification system to manage the quality of its loan portfolio. Such classification system is based on "the Guidance on Credit Risk Classification" ("the Guidance") issued by CBRC. Under the Bank's own system and the CBRC Guidance, the Bank classifies its credit assets and off-balance sheet credit exposures into five categories, which are namely pass, special mention, substandard, doubtful and loss. The last three categories are also classified as "non-performing credit assets".

The core definition of the Bank's credit asset classification is as follows:

Pass: The borrower is able to fulfil the contractual obligations, and there is no uncertainty that principal and interest can be paid on time.

Special Mention: The borrower is able to make current due payments, but there exist some indications that may have negative impact on the borrower's future payments.

Substandard: The borrower's repayment ability has been in doubt and its normal income cannot repay the loan principal and interest in full. Losses may be incurred by the Bank, even with the enforcement of guarantees and collateral.

Doubtful: The borrower cannot repay the principal and the interest in full. Significant losses will be incurred even with the enforcements of guarantees and collateral.

Loss: After taking into consideration all possible recovery actions and necessary legal procedures, the principal and interest cannot be collected or only a very small portion of principal and interest can be collected.

(ii) *Debt securities*

The Bank manages credit risks through limiting the issuers' credit rating. Investments in Rmb debt securities include treasury bonds, PBOC notes, debts of policy banks and corporate bonds.

(iii) *Loans to other banks and financial institutions*

The Headquarter reviews and monitors the credit risk of individual financial institutions on regular basis. Limits are placed for each individual bank or non-banking financial institution which has business relationship with the Bank.

47 FINANCIAL RISK MANAGEMENT (continued)

47.2 Credit risk (continued)

B Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risks accepted in relation to single borrower and groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, where necessary.

Exposures to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

(i) *Collateral*

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral for loans and advances are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, equipment, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Cash deposits.

Value of collateral is usually assessed by professional valuer designated by the Bank. To mitigate the credit risk, the Bank sets limit on the loan-to-value ratio for different types of collateral. The principal types of collateral for corporate loans and retail loans are as follows:

Collateral	Maximum loan-to-value ratio
Time deposit (non-matching currency)	90%
PRC treasury bonds	90%
PRC financial institution bonds	80%
Local real estate and land use rights	70%

The Bank normally requests guarantees for loans to corporate entities.

The Bank will evaluate the financial condition, credit history and ability to meet obligations of the guarantor on regular basis.

47 FINANCIAL RISK MANAGEMENT (continued)

47.2 Credit risk (continued)

B Risk limit control and mitigation policies (continued)

(i) *Collateral (continued)*

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(ii) *Derivative instruments*

The Bank maintains strict credit limits on derivative transactions with counterparties.

(iii) *Credit-related commitments*

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. In some cases, such as those situations where the amount of credit commitment exceeds the original credit limit, guarantee deposits are received by the Bank to lessen the credit risks related to certain of these commitments provided by the Bank. The Bank's potential amount of credit risk is generally equivalent to the total amount of credit commitments less the guarantee deposits placed with the Bank.

C Impairment and provisioning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

The objective evidences of impairment are as follows:

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

The Bank's policy requires review of impairment for individual financial assets that are above materiality thresholds at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.2 Credit risk (continued)

C Impairment and provisioning policies (continued)

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

D Maximum exposure to credit risk before collateral held or other credit enhancements

	31 December 2011	31 December 2010
Deposits with other banks	7,168,349,714	9,274,430,091
Placements with other banks	11,365,617,965	5,862,563,162
Trading assets	4,140,232,322	917,949,603
Investment securities – available-for-sale	2,550,693,786	2,625,520,346
Assets purchased under resale agreements	2,594,928,756	297,000,000
Derivative assets	1,805,640,590	1,604,509,862
Interest receivable	500,294,738	236,789,813
Loans to corporate entities	34,163,377,974	25,749,782,836
Loans to individuals	5,492,485,586	6,124,766,968
Other financial assets	123,752,412	118,679,555
Sub-total	69,905,373,843	52,811,992,236
Letters of credit issued	10,949,871,136	1,238,743,001
Letters of guarantee issued	1,574,139,685	878,164,966
Irrevocable loan commitment	1,529,937,525	1,527,067,799
Bank acceptances	1,065,096,451	1,096,503,482
Standby letter of credit	831,650,344	725,021,550
Sub-total	15,950,695,141	5,465,500,798
Total	85,856,068,984	58,277,493,034

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2011, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 57% of the total on-balance-sheet maximum exposure is derived from loans and advances to customers (31 December 2010: 60%).

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.2 Credit risk (continued)

E Placements with other banks

	31 December 2011	31 December 2010
Neither past due nor impaired	11,365,617,965	5,862,563,162
Total	11,365,617,965	5,862,563,162
Less:allowance for impairment losses	-	-
Placements with other banks, net	11,365,617,965	5,862,563,162

F Loans and advances

	31 December 2011	31 December 2010
Neither past due nor impaired	39,539,686,218	31,360,219,920
Past due but not impaired	271,040,623	689,224,138
Impaired	243,337,694	267,111,774
Total	40,054,064,535	32,316,555,832
Less:allowance for impairment losses	(398,200,975)	(442,006,028)
Net	39,655,863,560	31,874,549,804

The total allowance for impairment of loans and advances amounted to Rmb 398 million (31 December 2010: Rmb 442 million) of which Rmb 104 million (31 December 2010: Rmb 229 million) represents the individually assessed impairment allowance and the remaining amount of Rmb 294 million (31 December 2010: Rmb 213 million) represents the collectively assessed impairment allowance.

F.1 *Loans and advances neither past due nor impaired*

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the five rating classification system adopted by the Bank.

	Corporate Loans	Retail loans	Total
31 December 2011			
Pass	34,151,660,616	5,328,027,556	39,479,688,172
Special mention	53,975,888	6,022,158	59,998,046
	34,205,636,504	5,334,049,714	39,539,686,218
31 December 2010			
Pass	25,337,345,934	5,882,342,040	31,219,687,974
Special mention	106,659,773	33,872,173	140,531,946
	25,444,005,707	5,916,214,213	31,360,219,920

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.2 Credit risk (continued)

F Loans and advances (continued)

F.2 *Loans and advances past due but not impaired*

At the inception of loans, the Bank will appoint independent valuers to determine the fair value of collateral. The Bank will review the latest value of collateral when there is objective evidence of impairment of loan.

The breakdown by overdue period is as follows:

	Past due up to 30 days	Past due 30-60 days	Past due 60-90 days	Past due over 90 days	Total
31 December 2011					
Corporate loans	94,028,375	4,482,710	5,131,690	-	103,642,775
Retail loans	149,907,805	17,490,043	-	-	167,397,848
Total	243,936,180	21,972,753	5,131,690	-	271,040,623
31 December 2010					
Corporate loans	430,383,076	26,536,159	5,417,307	-	462,336,542
Retail loans	185,979,913	22,893,372	12,170,455	5,843,856	226,887,596
Total	616,362,989	49,429,531	17,587,762	5,843,856	689,224,138

As of 31 December 2011, the aggregated fair value of collateral held to support the above corporate loans amounted to Rmb 402 million and that of retail loans amounted to Rmb 354 million (31 December 2010: Rmb 415 million and Rmb 375 million).

F.3 *Loans and advances individually impaired*

	31 December 2011	31 December 2010
Corporate loans	194,879,637	251,739,597
Retail loans	48,458,057	15,372,177
	243,337,694	267,111,774

As of 31 December 2011, the aggregated fair value of collateral held to support the above corporate loans amounted to Rmb 132 million and that of retail loans amounted to Rmb 125 million (31 December 2010: Rmb 33 million and 36 million).

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.2 Credit risk (continued)

F Loans and advances (continued)

F.3 *Loans and advances individually impaired (continued)*

The Bank performed specific assessment for the above impaired loans and established impairment allowance of Rmb 104 million (31 December 2010: Rmb 229 million) after considering the value of collateral.

F.4 *Loans and advances renegotiated*

Renegotiated loans represent the loans that original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. As of 31 December 2011, the renegotiated loans held by the Bank amounted to Rmb 12 million (31 December 2010: Rmb 30 million).

G Trading assets and available-for-sale ("AFS") securities

The tables below analyse the Bank's investment securities by credit rating and issuer (for unrated):

Rmb securities	Trading securities	AFS securities
31 December 2011		
Rated as AAA	224,833,724	855,149,994
Rated as A	-	300,689,213
Unrated:		
PBOC notes	2,297,468,935	1,345,185,959
Bonds issued by policy banks	1,566,508,731	49,668,620
Treasury bonds	51,420,932	-
	4,140,232,322	2,550,693,786

	Trading assets	AFS securities
31 December 2010		
Rated as AAA – to AAA	-	853,014,936
Rated as A-1	-	325,897,048
Unrated:		
Bonds issued by policy banks	908,349,136	403,965,810
Treasury bonds	9,600,467	-
PBOC notes	-	1,042,642,552
	917,949,603	2,625,520,346

47 FINANCIAL RISK MANAGEMENT (continued)

47.3 Market risk

Market risk affects the economic values of financial instruments held by the bank, and arises from changes in interest rate yields, foreign exchange rates, equity prices, commodity prices, credit spreads and changes in the correlations and volatilities of these risk factors.

The Bank's market risk framework identifies the types of the market risk to be covered, the risk metrics and methodologies to be used to capture such risk and the standards governing market risk management within the bank including limit setting and independent model validation, monitoring and valuation.

Market risk is separately managed for the Bank's trading portfolio and non-trading portfolio.

(i) Trading market risk

The Bank's Trading book market risk covers potential downside economic value volatility affecting trading positions, arising from changes in interest rates, foreign exchange rates and credit spreads, as well as their correlations and implied volatilities.

The Bank manages trading market risk in the course of structuring and packaging products for investors and other clients, as well as to benefit from market opportunities.

China BRMC establishes the Bank's risk appetite for market risk and China MRC serve as the executive forum for overseeing various aspects of market risk taking including framework, limit management, policies, processes, methodologies and systems.

The principal market risk appetite measures for trading market risk are Value-at-Risk ('VaR') and stress loss. This VaR is complemented by risk control measures, such as sensitivities to risk factors, including their volatilities, as well as loss triggers for management action.

The Bank's trading VaR methodology uses a historical simulation approach to forecast the Bank's trading market risk. The same methodology is employed to compute stressed VaR and average tail loss metrics. The Bank computes VaR (in Singaporean Dollars 'SG$') daily. VaR (at a 99% confidence level over a one-day holding period, using a 1-year historical observation period) is back-tested against the profit or loss of the trading book in line with policy in order to monitor its predictive power.

Although VaR provides valuable insights, no single risk measure can capture all aspects of trading market risk. To complement the VaR measure, regular stress testing is carried out.

The following table shows the year end, average, highest and lowest daily VaR (at a 99% confidence level over a one-day holding period) for the trading market risk.
The Bank's Trading book market risk covers potential downside economic value volatility affecting trading positions, arising from changes in interest rates, foreign exchange rates and credit spreads, as well as their correlations and implied volatilities.

47 FINANCIAL RISK MANAGEMENT (continued)

47.3 Market risk (continued)

(i) Trading market risk (continued)

Rmb in million	As at 31 December 2011	1 January 2011 to 31 December 2011*		
		Average	Highest	Lowest
Total	9.01	7.58	14.12	4.39

	As at 31 December 2010	1 January 2010 to 31 December 2010*		
		Average	Highest	Lowest
Total	8.13	7.72	11.3	5.15

* using a 1-year historical observation period

(ii) Non-trading market risk

Non-trading market risk arises from changes in foreign exchange rates and interest rate. Non-trading market risk arises in the course of (a) the Bank's management of funds arising from banking intermediation and (b) the Bank's banking business; specifically, from mismatches in the interest rate profile of assets and liabilities, from the effect of exchange rate movements on the Bank's earnings and capital accounts.

To optimize its income and balance sheet management, the Bank deploys funds in the interbank market. Derivatives may be used to hedge non-trading market risk.

China BRMC and China MRC oversee non-trading market risk and allocate core limits to risk taking units, including the setting of operational limits and guidelines to refine risk management.

A Currency risk

Non-trading foreign exchange exposure covers the foreign exchange risk arising from foreign currency earnings. This non-trading foreign exchange risk is monitored using foreign exchange net open position reports.

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at the end of each reporting period. Included in the table are the Bank's assets and liabilities at carrying amounts in Rmb, categorized by the original currency.

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.3 Market risk (continued)

(ii) Non-trading market risk (continued)

A Currency Risk (continued)

31 December 2011	RMB	USD	HKD	Other currencies	Total
Assets					
Cash and deposits with the central bank	12,506,510,623	368,230,526	33,110,214	6,450,646	12,914,302,009
Deposits with other banks	4,410,603,728	2,425,521,277	131,703,232	200,521,477	7,168,349,714
Placements with other banks	11,365,617,965	-	-	-	11,365,617,965
Trading assets	4,140,232,322	-	-	-	4,140,232,322
Assets purchased under resale agreements	2,594,928,756	-	-	-	2,594,928,756
Investment securities - available-for-sale	2,550,693,786	-	-	-	2,550,693,786
Derivative assets	1,613,537,290	141,890,542	629,028	49,583,729	1,805,640,590
Interest receivable	341,402,222	142,877,520	118,478	15,896,518	500,294,738
Loans and advances	27,006,298,365	9,654,045,285	2,023,936,953	971,582,957	39,655,863,560
Fixed assets	81,670,710	-	-	-	81,670,710
Long-term prepaid expenses	29,914,310	-	-	-	29,914,310
Deferred income tax assets	279,426,309	-	-	-	279,426,309
Other assets	107,498,362	8,166,577	-	43,675,052	159,339,991
Total assets	67,028,334,748	12,740,731,727	2,189,497,905	1,287,710,379	83,246,274,760
Liabilities					
Due to other banks and financial institutions	1,567,051,523	72,115,685	46,006,180	-	1,685,173,388
Placements from other banks	2,050,000,000	11,239,545,420	-	-	13,289,545,420
Assets sold under repurchase agreements	1,292,833,499	-	-	-	1,292,833,499
Derivative liabilities	1,588,115,261	133,427,525	10,080	19,562,691	1,741,115,557
Due to customers	50,900,166,774	3,315,565,702	299,550,153	3,388,297,150	57,903,579,779
Payroll and welfare payable	91,247,723	-	-	-	91,247,723
Taxes payable	224,821,551	-	-	-	224,821,551
Interest payable	510,095,673	20,761,834	2,143,431	35,467,458	568,468,396
Other liabilities	2,426,380,395	823,764,098	77,103,201	(2,164,625,727)	1,162,621,967
Total liabilities	60,650,712,399	15,605,180,264	424,813,045	1,278,701,572	77,959,407,280
Net on-balance sheet position	6,377,622,349	(2,864,448,537)	1,764,684,860	9,008,807	5,286,867,480
Financial guarantees and credit related commitments	13,899,729,929	1,784,058,755	142,486,352	124,420,105	15,950,695,141

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.3 Market risk (continued)

(ii) Non-trading market risk (continued)

A Currency Risk (continued)

31 December 2010	RMB	USD	HKD	Other currencies	Total
Assets					
Cash and deposits with the central bank	8,094,521,636	239,224,552	44,556,272	5,435,120	8,383,737,580
Deposits with other banks	2,638,072,536	6,376,270,251	80,465,249	179,622,055	9,274,430,091
Placements with other banks	5,266,520,162	596,043,000	-	-	5,862,563,162
Trading assets	917,949,603	-	-	-	917,949,603
Assets purchased under resale agreements	297,000,000	-	-	-	297,000,000
Investment securities - available-for-sale	2,625,520,346	-	-	-	2,625,520,346
Derivative assets	620,456,519	959,504,429	874,452	23,674,462	1,604,509,862
Interest receivable	171,138,677	58,342,390	145,281	7,163,465	236,789,813
Loans and advances	22,850,081,044	6,664,245,798	1,624,250,494	735,972,468	31,874,549,804
Fixed assets	60,138,442	-	-	-	60,138,442
Long-term prepaid expenses	28,753,145	-	-	-	28,753,145
Deferred income tax assets	171,634,340	-	-	-	171,634,340
Other assets	145,889,240	1,370,131	20,351	437,959	147,717,681
Total assets	43,887,675,690	14,895,000,551	1,750,312,099	952,305,529	61,485,293,869
Liabilities					
Due to other banks and financial institutions	2,389,211	18,977,914	53,442,059	-	74,809,184
Placements from other banks	1,850,000,000	10,389,691,760	404,191,750	-	12,643,883,510
Derivative liabilities	602,215,720	928,843,907	275,143	32,337,779	1,563,672,549
Due to customers	34,156,129,619	5,809,037,199	243,893,404	1,285,612,114	41,494,672,336
Payroll and welfare payable	73,576,267	-	-	-	73,576,267
Taxes payable	69,028,135	35,708	-	457	69,064,300
Interest payable	224,702,508	18,019,658	1,541,795	19,635,487	263,899,448
Other liabilities	242,884,828	179,651,888	76,868,049	59,927,082	559,331,847
Total liabilities	37,220,926,288	17,344,258,034	780,212,200	1,397,512,919	56,742,909,441
Net on-balance sheet position	6,666,749,402	(2,449,257,483)	970,099,899	(445,207,390)	4,742,384,428
Financial guarantees and credit related commitments	3,606,081,281	1,625,145,821	152,476,669	81,797,027	5,465,500,798

47 FINANCIAL RISK MANAGEMENT (continued)

47.3 Market risk (continued)

(ii) Non-trading market risk (continued)

B Interest rate risk

The Bank distinguishes two major sources of non-trading interest rate risk (a) arising from the deployment of funds in interbank market activities and (b) from mismatches in the interest rate profile of assets and liabilities. The principal market risk measure for the non-trading interest rate risk is sensitivity-based analysis. This risk is subject to limits established by China MRC.

The estimated value volatility for major positions in RMB, JPY, HKD and USD from source (a) of non-trading interest rate risk as at 31 December 2011, assuming a 50 basis point increase in general interest rates for these currencies was a decrease of Rmb 1.38 million.

Interest rate risk arising from mismatches in the interest rate profile of assets and liabilities has several aspects: basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks and embedded optionality.

The estimated value volatility for major positions in RMB, AUD and USD from source (b) of non-trading interest rate risk as at 31 December 2011, assuming a 50 basis point increase in general interest rates for these currencies was an increase of Rmb 118.26 million.

The actual results may differ from the above sensitivity impact as the Bank manages factors such as changes in volumes, margins (for interest rate risk) and future business strategies, the impact of which is not captured in the sensitivity assessment.

The table below summarizes the Bank's exposures to interest rate risks. The table presents the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

47 FINANCIAL RISK MANAGEMENT (continued)

47.3 Market risk (continued)

(ii) Non-trading market risk (continued)

B Interest rate risk (continued)

31 December 2011	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	12,503,605,862	-	-	-	410,696,147	12,914,302,009
Deposits with other banks	5,968,349,714	1,200,000,000	-	-	-	7,168,349,714
Placements with other banks	2,439,239,211	8,926,378,754	-	-	-	11,365,617,965
Trading assets	1,002,598,203	984,498,734	1,831,572,185	321,563,200	-	4,140,232,322
Financial assets purchased under resale agreements	2,394,260,235	200,668,521	-	-	-	2,594,928,756
Investment securities – available-for-sale	-	343,573,366	2,170,526,091	36,594,329	-	2,550,693,786
Derivative assets	-	-	-	-	1,805,640,590	1,805,640,590
Interest receivables	-	-	-	-	500,294,738	500,294,738
Loans and advances	31,851,611,575	7,229,267,893	574,984,092	-	-	39,655,863,560
Fixed assets	-	-	-	-	81,670,710	81,670,710
Long-term prepaid expenses	-	-	-	-	29,914,310	29,914,310
Deferred income tax assets	-	-	-	-	279,426,309	279,426,309
Other assets	-	-	-	-	159,339,991	159,339,991
Total assets	56,159,664,800	18,884,387,268	4,577,082,368	358,157,529	3,266,982,795	83,246,274,760
Liabilities						
Due to other banks and financial institutions	773,099,818	247,973,570	664,100,000	-	-	1,685,173,388
Placements from other banks	13,289,545,420	-	-	-	-	13,289,545,420
Financial liabilities sold under repurchase agreements	1,292,833,499	-	-	-	-	1,292,833,499
Derivative liabilities	-	-	-	-	1,741,115,557	1,741,115,557
Due to customers	21,771,408,462	25,722,418,791	8,814,468,559	1,030,824,651	564,459,316	57,903,579,779
Payroll and welfare payable	-	-	-	-	91,247,723	91,247,723
Taxes payable	-	-	-	-	224,821,551	224,821,551
Interest payable	-	-	-	-	568,468,396	568,468,396
Other liabilities	-	-	-	-	1,162,621,967	1,162,621,967
Total liabilities	37,126,887,199	25,970,392,361	9,478,568,559	1,030,824,651	4,352,734,510	77,959,407,280
Net interest re-pricing gap	19,032,777,601	(7,086,005,093)	(4,901,486,191)	(672,667,122)	(1,085,751,715)	5,286,867,480

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.3 Market risk (continued)

(ii) Non-trading market risk (continued)

B Interest rate risk (continued)

31 December 2010	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	8,117,290,271	-	-	-	266,447,309	8,383,737,580
Deposits with other banks	9,274,430,091	-	-	-	-	9,274,430,091
Placements with other banks	2,949,196,267	2,913,366,895	-	-	-	5,862,563,162
Trading assets	402,140,299	29,897,152	485,912,152	-	-	917,949,603
Investment securities -- available-for-sale	200,072,559	393,187,730	1,916,865,743	115,394,314	-	2,625,520,346
Financial assets purchased under resale agreements	297,000,000	-	-	-	-	297,000,000
Derivative assets	-	-	-	-	1,604,509,862	1,604,509,862
Interest receivables	-	-	-	-	236,789,813	236,789,813
Loans and advances	27,229,898,066	3,757,488,798	847,839,065	-	39,323,875	31,874,549,804
Fixed assets	-	-	-	-	60,138,442	60,138,442
Long-term prepaid expenses	-	-	-	-	28,753,145	28,753,145
Deferred income tax assets	-	-	-	-	171,634,340	171,634,340
Other assets	-	-	-	-	147,717,681	147,717,681
Total assets	48,470,027,553	7,093,940,575	3,250,616,960	115,394,314	2,555,314,467	61,485,293,869
Liabilities						
Due to other banks and financial institutions	63,135,863	11,673,321	-	-	-	74,809,184
Placements from other banks	11,208,397,960	1,435,485,550	-	-	-	12,643,883,510
Derivative liabilities	-	-	-	-	1,563,672,549	1,563,672,549
Due to customers	18,947,852,988	12,059,824,182	8,536,507,189	1,751,840,644	198,647,333	41,494,672,336
Payroll and welfare payable	-	-	-	-	73,576,267	73,576,267
Taxes payable	-	-	-	-	69,064,300	69,064,300
Interest payable	-	-	-	-	263,899,448	263,899,448
Other liabilities	-	-	-	-	559,331,847	559,331,847
Total liabilities	30,219,386,811	13,506,983,053	8,536,507,189	1,751,840,644	2,728,191,744	56,742,909,441
Net interest re-pricing gap	18,250,640,742	(6,413,042,478)	(5,285,890,229)	(1,636,446,330)	(172,877,277)	4,742,384,428

47 FINANCIAL RISK MANAGEMENT (continued)

47.4 Liquidity risk

Funding liquidity risk (or liquidity risk) is defined as the current and prospective risk arising from the inability of the Bank to meet its contractual or regulatory obligations when they come due without incurring substantial losses. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. The Bank seeks to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The primary tool of monitoring liquidity risk is the maturity mismatch analysis, which presents the profile of future expected cash flows under defined scenarios. This is monitored over successive time bands and across major functional currencies under normal and adverse market scenario conditions.

China ALCO is the primary party responsible for liquidity management based on guidelines framework approved by the China BRMC.

Limits are set on maturity mismatches under normal and stress scenarios and liquidity ratios. As part of liquidity management, the Bank will set limits to ensure that the funding requirements will not exceed the available funding and liquid assets available for both normal and stress scenarios.

As part of its management of liquidity risk inherent in its derivative and non-derivative financial liabilities, the Bank employs a number of strategies. These include maintaining sufficient liquid assets, maintaining diversified sources of liquidity, and having robust internal control processes and contingency plans.

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.4 Liquidity risk (continued)

A Non-derivative cash flows of financial assets and liabilities

The table below presents the contractual undiscounted cash flows of the Bank under non-derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date.

	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2011						
Financial Liabilities						
Due to other banks and financial institutions	555,130,865	223,500,331	254,041,540	708,544,286	-	1,741,217,022
Placements from other banks	8,373,182,734	4,941,326,497	-	-	-	13,314,509,231
Financial Liabilities sold under repurchase agreements	1,293,597,909	-	-	-	-	1,293,597,909
Due to customers	11,736,661,103	8,063,869,762	26,605,399,209	10,802,875,846	3,071,475,934	60,280,281,854
Total financial liabilities	21,958,572,611	13,228,696,590	26,859,440,749	11,511,420,132	3,071,475,934	76,629,606,016
Financial Assets						
Cash and deposits with the central bank	12,919,236,892	-	-	-	-	12,919,236,892
Deposits with other banks	4,387,054,913	1,622,964,536	1,233,603,947	-	-	7,243,623,396
Placements with other banks	508,561,599	1,909,750,968	9,315,145,364	-	-	11,733,457,931
Trading assets	8,840,538	6,186,718	1,296,638,328	2,976,515,035	346,993,500	4,635,174,119
Investment securities – available-for-sale	-	5,507,000	419,865,068	2,305,335,466	46,256,000	2,776,963,534
Financial assets purchased under resale agreements	502,445,205	1,931,524,399	210,276,000	-	-	2,644,245,604
Loans and advances	4,934,211,647	7,503,943,959	15,784,930,611	11,338,311,508	6,878,146,167	46,439,543,892
Total financial assets	23,260,350,794	12,979,877,580	28,260,459,318	16,620,162,009	7,271,395,667	88,392,245,368
Net cash flows	1,301,778,183	(248,819,010)	1,401,018,569	5,108,741,877	4,199,919,733	11,762,639,352

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.4 Liquidity risk (continued)

A Non-derivative cash flows of financial assets and liabilities

	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2010						
Financial Liabilities						
Due to other banks and financial institutions	23,509,721	39,780,189	11,714,138	-	-	75,004,048
Placements from other banks	3,533,095,382	7,691,869,462	1,469,110,195	-	-	12,694,075,039
Due to customers	12,263,753,701	4,398,216,793	13,014,858,070	10,037,658,601	1,751,890,644	41,466,377,809
Total financial liabilities	15,820,358,804	12,129,866,444	14,495,682,403	10,037,658,601	1,751,890,644	54,235,456,896
Financial Assets						
Cash and deposits with the central bank	8,386,550,790	-	-	-	-	8,386,550,790
Deposits with other banks	5,426,039,533	2,461,317,197	1,412,633,594	-	-	9,299,990,324
Placements with other banks	746,428,988	2,219,235,044	2,951,004,518	-	-	5,916,668,550
Trading assets	-	-	182,799,000	757,824,333	-	940,623,333
Investment securities – available-for-sale	-	-	618,481,559	2,003,395,936	123,817,497	2,745,694,992
Assets purchased under resale agreements	298,269,370	-	-	-	-	298,269,370
Loans and advances	4,104,220,324	5,121,224,128	10,218,670,762	11,098,573,842	8,051,562,003	38,594,251,059
Total financial assets	18,961,509,005	9,801,776,369	15,383,589,433	13,859,794,111	8,175,379,500	66,182,048,418
Net cash flows	3,141,150,201	(2,328,090,075)	887,907,030	3,822,135,510	6,423,488,856	11,946,591,522

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.4 Liquidity risk (continued)

B Derivative cash flows

(1) Derivatives settled on a net basis

The Bank's derivatives that will be settled on a net basis include interest rate swaps and other interest rate derivatives.

The table below analyses the Bank's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2011						
Interest rate derivatives	(17,766,721)	30,602,233	18,417,592	12,079,664	-	43,332,768
31 December 2010						
Interest rate derivatives	4,368,290	11,082,528	65,267,690	108,683,940	137,277	189,539,725

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47 FINANCIAL RISK MANAGEMENT (continued)

47.4 Liquidity risk (continued)

B Derivative cash flows (continued)

(2) Derivatives settled on a gross basis

The Bank's derivatives that will be settled on a gross basis mainly include derivative: currency forward

The table below analyses the Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2011						
Foreign exchange derivatives						
– Outflow	64,295,063,026	45,363,883,259	61,495,262,098	1,556,838,100	-	172,711,046,483
– Inflow	64,373,834,657	45,376,447,752	61,486,680,362	1,560,353,800	-	172,797,316,571
As at 31 December 2010						
Foreign exchange derivatives						
– Outflow	38,906,789,967	38,159,401,110	57,892,844,869	1,771,223,616	-	136,730,259,562
– Inflow	38,830,663,300	38,213,424,729	57,879,021,973	1,776,265,966	-	136,699,375,968

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.4 Liquidity risk (continued)

C Off-balance sheet items

	No later than 1 year	1-5 years	Over 5 years	Total
31 December 2011				
Letters of credit issued	10,692,871,136	257,000,000	-	10,949,871,136
Letters of guarantee issued	1,468,209,892	86,929,793	19,000,000	1,574,139,685
Irrevocable loan commitment	332,087,337	822,962,107	374,888,081	1,529,937,525
Bank acceptances	1,065,096,451	-	-	1,065,096,451
Standby letter of credit	705,632,344	126,018,000	-	831,650,344
Operating lease commitments	99,225,441	214,054,617	-	313,280,058
Total	14,363,122,601	1,506,964,517	393,888,081	16,263,975,199
31 December 2010				
Letters of credit issued	1,238,565,988	177,013	-	1,238,743,001
Letters of guarantee issued	697,497,758	180,667,208	-	878,164,966
Irrevocable loan commitment	46,833,787	1,145,551,296	334,682,716	1,527,067,799
Bank acceptances	1,096,503,482	-	-	1,096,503,482
Standby letter of credit	665,353,623	59,667,927	-	725,021,550
Operating lease commitments	84,558,032	184,297,964	-	268,855,996
Total	3,829,312,670	1,570,361,408	334,682,716	5,734,356,794

47.5 Fair values of financial assets and liabilities

Fair values estimation is made in accordance with information of market and financial instruments in some specific point. Estimation is based on following methods and supposition:

(i) Cash and due from other banks and financial institutions, Deposits with the central bank, Deposits with other banks, Due to other banks and financial institutions, Interest receivable, Interest payable, Other assets and Other liabilities.

Given that maturities of these financial assets and liabilities are either short-term or re-priced more than once every year; the carrying amount approximates the fair value.

(ii) Loans and advances

Because the Rmb loan interest rates follows the movement of PBOC benchmark interest rates, and interest tares for loans denominated in foreign exchange are generally floating rates, fair value of loans is close to carrying value.

(iii) Customer deposits

The fair value of current, savings and money market accounts is the amount payable on demand at the reporting date. The carrying value of fixed interest-bearing deposits and placements approximates to its fair value because they are mainly payable in short term period.

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.6 Fair value hierarchy

CBRC guidance specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and Rmb debt instruments traded in inter-bank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and China Bond.

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes structured financial instruments.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

31 December 2011

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Trading securities	-	4,140,232,322	-	4,140,232,322
- Derivatives assets	-	1,805,640,590	-	1,805,640,590
- Reverse repos	-	2,594,928,756	-	2,594,928,756
Available–for-sale investments	-	2,550,693,786	-	2,550,693,786
Total Assets	-	11,091,495,454	-	11,091,495,454
Financial liabilities at fair value				
- Derivative liabilities	-	(1,741,115,557)	-	(1,741,115,557)
- Repos	-	(1,292,833,499)	-	(1,292,833,499)
Financial liabilities designated as fair value through profit or loss - SIPs	-	(22,595,232,477)	-	(22,595,232,477)
Total Liabilities	-	(25,629,181,533)	-	(25,629,181,533)

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.6 Fair value hierarchy (continued)

31 December 2010

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Trading securities	-	917,949,603	-	917,949,603
- Derivatives assets	-	1,604,509,862	-	1,604,509,862
- Reverse repos	-	297,000,000	-	297,000,000
Available–for-sale investments	-	2,625,520,346	-	2,625,520,346
Total Assets	-	5,444,979,811	-	5,444,979,811
Financial liabilities at fair value				
- Derivative liabilities		1,563,672,549	-	1,563,672,549
Financial liabilities designated as fair value through profit or loss - SIPs	-	(12,412,994,651)	434,022	(12,412,560,629)
Total Liabilities	-	(10,849,322,102)	434,022	(10,848,888,080)

(All amounts expressed in Rmb unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (continued)

47.7 Capital management

The Bank's capital management focuses on monitoring of the Capital Adequacy Ratio (CAR), aiming to comply with the regulatory requirements and support the business expansion.

The Bank calculates and discloses Capital Adequacy Ratio in accordance with "The Rules on Capital Adequacy Ratios of Commercial Banks" and other regulatory requirements issued by the CBRC.

The table below provides the analysis of regulatory capital and the ratios of the Bank.

	31 December 2011	31 December 2010
Tier 1 capital		
Paid-in capital	4,000,000,000	4,000,000,000
Capital surplus	22,571,343	22,571,343
Revaluation reserve for available-for-sale securities	(28,981,959)	(46,245,144)
Surplus reserve	129,327,810	76,605,823
General reserve	476,000,000	320,600,000
Undistributed profits	687,950,286	368,852,406
Less: unrealized fair value gains of financial liabilities designated at fair value through profit or loss (i)	(4,881,162)	-
Net Tier 1 Capital	5,281,986,318	4,742,384,428
Tier 2 capital	-	-
Total regulatory capital	5,281,986,318	4,742,384,428
Total risk-weighted assets	38,718,453,880	31,329,310,522
Core capital adequacy ratio	13.64%	15.14%
Capital adequacy ratio	13.64%	15.14%

(i) In accordance with "Notice issued by CBRC regarding calculation of Capital Adequacy Ratios for Banks adopting New CAS" (Yin Jian Fa [2007] No. 82), unrealised fair value gains from financial assets or liabilities designated at fair value through profit or loss should be excluded from tier 1 capital base, after deducting the impact of corporate income tax.

48 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.