DBS BANK (CHINA) LIMITED

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS FOR THE YEAR ENDED 31 DECEMBER 2009

[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 2009

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[English translation for reference only]

Report of the auditors

PwC ZT Shen Zi (2010) No. 20622

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

We have audited the accompanying financial statements of DBS Bank (China) Limited (the "Bank"), comprising its balance sheet as at 31 December 2009 and the income statement, the statement of cash flows and changes in owner's equity for the year ended 31 December 2009 and notes to these financial statements.

Management's Responsibility for the Financial Statements

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

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 the China Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

Opinion

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

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China

2 February 2010

DBS BANK (CHINA) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2009
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2009	31 December 2008
Cash and deposits with the central bank	8	3,486,183,899	4,008,892,369
Deposits with other banks	9	2,201,238,264	4,614,243,575
Placements with other banks	10	1,004,846,000	200,946,250
Trading assets	11	1,438,960,385	744,066,766
Derivative assets	12	243,499,635	404,927,321
Interest receivable	13	104,069,876	256,351,932
Loans and advances	14	28,159,912,748	26,538,613,430
Fixed assets	15	61,658,080	26,089,432
Long-term prepaid expenses	16	60,497,654	78,913,994
Deferred income tax assets	25	170,027,187	83,329,913
Other assets	17	86,568,324	114,653,725
TOTAL ASSETS		37,017,462,052	37,071,028,707

DBS BANK (CHINA) LIMITED

BALANCE SHEET (continued)
AS AT 31 DECEMBER 2009
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

LIABILITIES	Notes	31 December 2009	31 December 2008
Due to other banks and financial institutions	18	269,796,825	1,892,344,160
Placements from other banks	19	10,926,729,292	11,496,111,558
Financial liabilities at fair value through profit or loss	20	-	51,013,114
Derivative liabilities	12	285,654,235	358,656,340
Due to customers	21	20,584,309,016	18,331,884,050
Payroll and welfare payable	22	62,541,894	38,467,795
Taxes payable	23	73,793,093	81,582,867
Interest payable	24	90,950,196	205,034,887
Other liabilities	26	197,772,422	202,981,262
TOTAL LIABILITIES		32,491,546,973	32,658,076,033
OWNER'S EQUITY			
Paid-in capital	27	4,000,000,000	4,000,000,000
Capital surplus	28	22,571,343	22,571,343
Surplus reserve	29	50,334,374	39,038,133
General reserve	30	319,600,000	-
Undistributed profits	31	133,409,362	351,343,198
TOTAL OWNER'S EQUITY		4,525,915,079	4,412,952,674
TOTAL LIABILITIES AND OWNER'S EQUITY		37,017,462,052	37,071,028,707

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

Chairman　　President:　　Head of Finance:

DBS BANK (CHINA) LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

	Notes	2009	2008
Interest income	32	1,429,931,443	2,072,538,506
Interest expense	32	(411,644,960)	(962,750,022)
Net interest income		1,018,286,483	1,109,788,484
Fee and commission income	33	146,464,871	112,575,298
Fee and commission expenses	33	(8,114,320)	(5,795,671)
Net fee and commission income		138,350,551	106,779,627
Investment loss	34	(2,804,199)	(4,126,828)
Fair value gains/(losses)	35	(103,405,340)	81,591,410
Net gains/(losses) from foreign exchange and derivative transactions	36	32,500,325	(95,917,980)
Operating income		1,082,927,820	1,198,114,713
Business tax and levies		(76,750,901)	(93,490,332)
General and administrative expenses	37	(582,791,452)	(499,771,755)
Impairment charge for credit losses	38	(297,739,058)	(208,131,810)
Operating expense		(957,281,411)	(801,393,897)
Operating profit		125,646,409	396,720,816
Non-operating income		21,404,236	13,237,930
Non-operating expenses		(3,594,561)	(2,572,076)
Total profit		143,456,084	407,386,670
Less: Income tax	39	(30,493,679)	(92,508,193)
Net profit		112,962,405	314,878,477
Other comprehensive income		-	-
Total comprehensive income		112,962,405	314,878,477

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

Chairman　　President:　　Head of Finance:

DBS BANK CHINA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

		Notes	2009	2008
1	**Cash flows from operating activities**			
	Net increase in customer deposits and due to other banks		629,877,631	7,799,612,772
	Net decrease in trading assets		-	236,111,726
	Net decrease in placements with other banks		100,000,000	46,092,000
	Interest received		1,582,213,499	2,007,826,254
	Fee and commission received		142,256,529	112,575,298
	Cash received relating to other operating activities		21,404,236	39,868,097
	Sub-total of cash inflow		2,475,751,895	10,242,086,147
	Net increase in loans and advances		(1,919,038,376)	(3,439,757,186)
	Net increase in trading assets		(712,677,577)	-
	Net increase in deposits with the PBOC and other banks		(138,553,340)	(1,307,383,568)
	Net decrease in placements from other banks		(569,382,266)	(855,450,757)
	Net decrease in financial liabilities at fair value through profit or loss		(51,013,114)	(322,069,307)
	Interest paid		(525,729,651)	(938,313,886)
	Fee and commission paid		(28,056,479)	(5,795,671)
	Cash paid to employees		(287,841,965)	(300,113,186)
	Payment of taxes		(201,731,628)	(171,046,035)
	Cash paid relating to other operating activities		(169,236,891)	(522,498,470)
	Sub-total of cash outflow		(4,603,261,287)	(7,862,428,066)
	Net cash provided from/(used in) operating activities	40	(2,127,509,392)	2,379,658,081
2	**Cash flows from investing activities**			
	Cash paid for purchase of fixed assets and other long-term assets		(40,037,230)	(73,920,576)
	Sub-total of cash outflow		(40,037,230)	(73,920,576)
	Net cash used in investing activities		(40,037,230)	(73,920,576)

DBS BANK CHINA LIMITED

STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

		Notes	2009	2008
3	**Net cash flows from financing activities**		-	-
4	**Effect of foreign exchange rate changes on cash and cash equivalents**		(2,820,749)	(120,876,313)
5	**Net (decrease)/increase in cash and cash equivalents**		(2,170,367,371)	2,184,861,192
	Add: Cash and cash equivalents at beginning of year		6,050,472,243	3,865,611,051
6	**Cash and cash equivalents at end of year**	40	3,880,104,872	6,050,472,243

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

Chairman President: Head of Finance:

DBS BANK (CHINA) LIMITED

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

	Paid-in capital Note 27	**Capital surplus** Note 28	**Surplus reserve** Note 29	**General reserve** Note 30	**Undistributed profits** Note 31	**Total owners' equity**
Balance at 1 January 2008	4,000,000,000	22,571,343	7,550,285	-	67,952,569	4,098,074,197
Net profit for the year of 2008	-	-	-	-	314,878,477	314,878,477
Other comprehensive income	-	-	-	-	-	-
Transfer to reserve fund	-	-	31,487,848	-	(31,487,848)	-
Balance at 31 December 2008	4,000,000,000	22,571,343	39,038,133	-	351,343,198	4,412,952,674
Net profit for the year of 2009	-	-	-	-	112,962,405	112,962,405
Other comprehensive income	-	-	-	-	-	-
Transfer to general reserve	-	-		319,600,000	(319,600,000)	-
Transfer to surplus reserve	-	-	11,296,241	-	(11,296,241)	-
Balance at 31 December 2009	4,000,000,000	22,571,343	50,334,374	319,600,000	133,409,362	4,525,915,079

The accompanying notes form an integral part of these financial statements

Chairman President: Head of Finance:

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 ("SAOC") 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 eight branches and seven sub-branches located in Shanghai, Beijing, Shenzhen, Suzhou, Guangzhou, Tianjin, Nanning and Dongguan of the PRC.

The financial statements were authorized for issue by Board of Directors on 2 February 2010.

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 2009 truly and completely present the financial position as of 31 December 2009 and the operating results, cash flows and other information for the year then ended of the Bank in compliance with the Accounting Standards for Business Enterprises.

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

For the purposes of the cash flow statement, cash and cash equivalents comprise 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 Assets purchased under resale agreements (“Reverse repos”) and assets sold under repurchase agreements (“repos”)

Reverse repo refers to the agreement under which the Bank purchases an asset (e.g. security and bills) at a fixed price with an obligation to resell it to the same counterparty at a pre-determined price at a specified date. Such assets are recorded at actual amounts paid at acquisition and presented in “Assets purchased under resale agreement”.

Repo refers to the agreement under which the Bank sells an asset (e.g. security and bills) at a fixed price with an obligation to repurchase it from the same counterparty at a pre-determined price at a specified date. Repos are recorded at the actual amounts received and presented in “Assets sold under repurchase agreements”.

The difference between sale and repurchase price is treated as interest income or expenses and recognized over the life of the agreement using the effective interest method.

H 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.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

I 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.

J 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.

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%

4 PRINCIPAL ACCOUNTING POLICIES (continued)

J Fixed assets (continued)

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.

K 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 using straight-line method over their respective estimated beneficial periods and are presented at actual costs incurred net of accumulated amortisation.

L 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.

M 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.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

M Interest income and expenses (continued)

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.

N Fee and commission income

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

O 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.

P 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. The total payments made under operating leases are charged to the income statement 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.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

Q 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.

R 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 41.

S 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)

S 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.

T 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.

U 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 CHANGE IN SIGNIFICANT ACCOUNTING POLICIES

Segment information

Before 1 January 2009, the Bank disclosed segment information based on business segments and geographical segments. The Bank identified geographical segments as the primary reporting format and business segments as the secondary reporting format.

In accordance with the relevant requirements on segment information reporting improvement in the CAS Interpretation No. 3 issued by the MOF on 11 June 2009, from 1 January 2009, the Bank no longer discloses segment information by identifying geographical segments as the primary reporting format and business segments as the secondary reporting format. Instead, the Bank identifies operating segments based on internal organization structure, management requirement and internal reporting, then discloses segment information of reportable segment which is based on operating segment.

The segment information of 2008 has been restated in accordance with the above requirements.

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 2009 is 20%（2008: 18%）.

8 CASH AND DEPOSITS WITH THE CENTRAL BANK

	31 December 2009	31 December 2008
Cash	30,497,459	17,644,851
Restricted reserve deposits with the PBOC	2,395,481,277	1,919,708,726
Balances with the PBOC other than restricted reserve deposits	1,060,205,163	2,071,538,792
	3,486,183,899	4,008,892,369

According to the relevant provisions of the PBOC, the required reserve ratio for customer deposits denominated in foreign currencies was 5% at 31 December 2009 (31 December 2008: 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 13.5% at 31 December 2009 (31 December 2008: 13.5 %). 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 2009	31 December 2008
Deposits with domestic banks	1,460,969,018	3,813,269,493
Deposits with overseas banks	636,795,475	712,601,421
Deposits with overseas related parties	103,473,771	88,372,661
	2,201,238,264	4,614,243,575

10 PLACEMENTS WITH OTHER BANKS

	31 December 2009	31 December 2008
Placements with domestic banks	1,004,846,000	200,000,000
Placements with overseas banks	-	946,250
	1,004,846,000	200,946,250

The term of placements with other banks ranging from 1 month to 3 months.

11 TRADING ASSETS

	31 December 2009	31 December 2008
PBOC notes	1,378,444,280	711,306,647
Bonds issued by a policy bank	60,516,105	-
Treasury bonds	-	32,760,119
	1,438,960,385	744,066,766

12 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)

12 DERIVATIVE INSTRUMENTS (continued)

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

		Fair value	
31 December 2009	Notional amount	Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forwards	79,219,586,112	129,014,370	(159,430,402)
Foreign exchange options	4,995,619,577	7,137,567	(7,137,567)
	84,215,205,689	136,151,937	(166,567,969)
Interest rate derivatives			
Interest rate swaps	32,551,809,820	99,724,017	(111,462,585)
Interest rate cap and floor	1,909,565,000	64,515	(64,515)
	34,461,374,820	99,788,532	(111,527,100)
Other derivatives			
Equity options	214,126,567	7,559,166	(7,559,166)
Total	118,890,707,076	243,499,635	(285,654,235)

		Fair value	
31 December 2008	Notional amount	Assets	Liabilities
Foreign exchange derivatives			
Foreign exchange forwards	35,564,120,306	298,072,455	(252,219,347)
Foreign exchange options	7,840,222,099	16,303,754	(16,303,754)
	43,404,342,405	314,376,209	(268,523,101)
Interest rate derivatives			
Interest rate swaps	8,806,495,275	86,606,176	(86,188,303)
Interest rate cap and floor	1,263,864,850	3,930,001	(3,930,001)
	10,070,360,125	90,536,177	(90,118,304)
Other derivatives			
Equity options	11,509,305	14,935	(14,935)
Total	53,486,211,835	404,927,321	(358,656,340)

(All amounts expressed in Rmb unless otherwise stated)

13 INTEREST RECEIVABLE

	31 December 2009	31 December 2008
Interest receivable from:		
Loans and advances	94,617,018	228,702,304
Deposits and placements with other banks	8,442,656	26,817,847
Deposits with the central bank	1,010,202	831,781
	104,069,876	256,351,932

14 LOANS AND ADVANCES

	31 December 2009	31 December 2008
Retail loans		
-Mortgage loans	2,263,920,532	1,241,540,386
-Others	2,947,202,512	1,283,530,887
Retail loans	5,211,123,044	2,525,071,273
Corporate loans and advances		
-Loans	19,971,159,121	22,005,549,230
-Import and export bills	393,441,108	253,417,333
-Discounted bills and others	3,195,491,276	2,242,149,213
Corporate loans	23,560,091,505	24,501,115,776
Total loans	28,771,214,549	27,026,187,049
Individual impairment allowance	(292,261,350)	(248,383,857)
Collective impairment allowance	(319,040,451)	(239,189,762)
Total impairment allowance	(611,301,801)	(487,573,619)
Loans and advances, net	28,159,912,748	26,538,613,430

(All amounts expressed in Rmb unless otherwise stated)

14 LOANS AND ADVANCES (continued)

(1) Industry sector:

	31 December 2009		31 December 2008	
	Balance	%	Balance	%
Consumer loans	5,211,123,044	18%	2,525,071,273	9%
Manufacturing	10,510,336,714	37%	11,269,500,771	42%
Real estate	5,187,753,615	18%	6,714,841,730	25%
Wholesale and retail business	1,973,090,521	7%	1,503,112,186	6%
Leasing and commercial services	1,620,467,761	6%	1,493,569,801	6%
Financial institutions	921,676,759	3%	1,115,155,813	4%
Retail services	835,386,863	3%	504,252,865	2%
Information and technology	684,460,359	2%	674,073,228	2%
Transportation	508,964,014	2%	362,207,922	1%
Environment and public facilities	425,866,795	1%	180,389,151	1%
Hotel and restaurant	207,096,920	1%	212,815,721	1%
Construction	245,891,000	1%	301,173,221	1%
Power, energy and water	166,505,650	-	42,794,400	-
Others	272,594,534	1%	127,228,967	-
Total, gross	28,771,214,549	100%	27,026,187,049	100%

(2) Geographic sector:

	31 December 2009	31 December 2008
Shanghai	16,628,396,947	14,847,558,427
Beijing	3,669,267,883	3,965,013,101
Shenzhen	4,157,615,573	5,287,472,787
Guangzhou	1,803,215,086	1,720,511,549
Suzhou	2,101,071,779	1,200,054,328
Tianjin	360,406,543	5,576,857
Nanning	51,240,738	-
Total, gross	28,771,214,549	27,026,187,049

(3) By type of security:

	31 December 2009	31 December 2008
Clean loans	3,568,105,883	3,304,205,931
With guarantee only	3,888,193,898	4,365,615,585
With collateral only	11,226,486,679	9,932,714,261
With both collateral and guarantee	10,088,428,089	9,423,651,272
Total, gross	28,771,214,549	27,026,187,049

(All amounts expressed in Rmb unless otherwise stated)

14 LOANS AND ADVANCES (continued)

(4) Loans and advances past due:

	31 December 2009				
	Past due up to 90 days	Past due 90 - 365 days	Past due 1 - 3 years	Past due over 3 years	Total
Clean loans	6,638,062	20,544,533	12,859,481	-	40,042,076
With guarantee only	9,468,400	30,637	4,493,540	-	13,992,577
With collateral only	157,092,484	17,747,208	5,610,610	-	180,450,302
With both collateral and guarantee	245,818,630	187,897,454	179,983,485	-	613,699,569
	419,017,576	226,219,832	202,947,116	-	848,184,524

	31 December 2008				
	Past due up to 90 days	Past due 90 - 365 days	Past due 1 - 3 years	Past due over 3 years	Total
Clean loans	46,491,123	20,812,752	2,873,010	-	70,176,885
With guarantee only	102,673,183	8,497,497	4,845,870	-	116,016,550
With collateral only	88,774,248	133,710,676	24,949,927	52,870,338	300,305,189
With both collateral and guarantee	231,407,360	158,946,819	63,912,973	-	454,267,152
	469,345,914	321,967,744	96,581,780	52,870,338	940,765,776

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

	2009		
	Individually assessed	Collectively assessed	Total
At 1 January	248,383,857	239,189,762	487,573,619
Impairment losses for loans and advances (Note 38)	222,054,878	79,969,593	302,024,471
Write-off	(178,101,800)	-	(178,101,800)
Exchange difference	(75,585)	(118,904)	(194,489)
At 31 December	292,261,350	319,040,451	611,301,801

	2008		
	Individually assessed	Collectively assessed	Total
At 1 January	90,823,310	211,836,551	302,659,861
Impairment losses for loans and advances (Note 38)	170,644,347	37,487,463	208,131,810
Write-off	(13,083,800)	-	(13,083,800)
Exchange difference	-	(10,134,252)	(10,134,252)
At 31 December	248,383,857	239,189,762	487,573,619

(All amounts expressed in Rmb unless otherwise stated)

15 FIXED ASSETS

	Buildings	Office equipment and furniture	Computers and other electronic equipment	Total
Cost				
At 1 January 2009	50,255,661	17,307,943	13,085,998	80,649,602
Add: Additions	-	8,503,195	1,832,525	10,335,720
Less: Disposals/write-off	-	(830,897)	(1,544,502)	(2,375,399)
Add: Transfer-in	-	14,857,740	35,124,318	49,982,058
At 31 December 2009	50,255,661	39,837,981	48,498,339	138,591,981
Accumulated depreciation				
At 1 January 2009	11,353,407	4,106,802	5,846,294	21,306,503
Add: Additions	194,779	4,723,038	3,462,490	8,380,307
Less: Disposals/write-off	-	(376,968)	(1,102,957)	(1,479,925)
Add: Transfer-in	-	7,802,749	7,670,600	15,473,349
At 31 December 2009	11,548,186	16,255,621	15,876,427	43,680,234
Net book value				
At 31 December 2009	38,707,475	23,582,360	32,621,912	94,911,747
Provision for impairment				
At 1 January 2009 and 31 December 2009	(33,253,667)	-	-	(33,253,667)
Net value				
At 31 December 2009	5,453,808	23,582,360	32,621,912	61,658,080

In October 2009, the Bank reclassified certain capital expenditure from “long-term prepaid expenses” to “fixed assets” in connection with the implementation of a fixed assets management system.

(All amounts expressed in Rmb unless otherwise stated)

15 FIXED ASSETS (continued)

	Buildings	Office equipment and furniture	Computers and other electronic equipment	Total
Cost				
At 1 January 2008	50,255,661	6,358,632	8,591,404	65,205,697
Add: Additions	-	12,002,896	6,042,494	18,045,390
Less: Disposals	-	(1,053,585)	(1,547,900)	(2,601,485)
At 31 December 2008	50,255,661	17,307,943	13,085,998	80,649,602
Accumulated depreciation				
At 1 January 2008	11,158,628	2,943,618	4,747,140	18,849,386
Add: Additions	194,779	1,856,574	2,434,932	4,486,285
Less: Disposals	-	(693,390)	(1,335,778)	(2,029,168)
At 31 December 2008	11,353,407	4,106,802	5,846,294	21,306,503
Net book value				
At 31 December 2008	38,902,254	13,201,141	7,239,704	59,343,099
Provision for impairment				
At 1 January 2008 and 31 December 2008	(33,253,667)	-	-	(33,253,667)
Net value				
At 31 December 2008	5,648,587	13,201,141	7,239,704	26,089,432

16 LONG-TERM PREPAID EXPENSES

	Leasehold improvement	Others	Total
As at 1 January 2009	76,962,061	1,951,933	78,913,994
Additions	44,161,149	-	44,161,149
Disposals	(3,437,951)	-	(3,437,951)
Transfer-out	(34,508,709)	-	(34,508,709)
Amortization	(24,515,269)	(115,560)	(24,630,829)
As at 31 December 2009	58,661,281	1,836,373	60,497,654
As at 1 January 2008	43,992,440	2,060,263	46,052,703
Additions	51,237,164	4,638,022	55,875,186
Disposals	(870,013)	-	(870,013)
Amortization	(17,397,530)	(4,746,352)	(22,143,882)
As at 31 December 2008	76,962,061	1,951,933	78,913,994

(All amounts expressed in Rmb unless otherwise stated)

17 OTHER ASSETS

	31 December 2009	31 December 2008
Rental deposits	30,694,372	20,163,439
Receivables from related parties (Note 44(3))	3,448,123	58,422,104
Others	52,425,829	36,068,182
	86,568,324	114,653,725

18 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2009	31 December 2008
Deposit from domestic banks	114,841,743	1,607,911,424
Deposit from domestic related parties (Note 44(3))	65,598,405	243,201,157
Deposit from overseas related parties (Note 44(3))	89,356,677	41,231,579
	269,796,825	1,892,344,160

19 PLACEMENTS FROM OTHER BANKS

	31 December 2009	31 December 2008
Placements from domestic banks	2,843,943,900	2,694,314,849
Placements from overseas related parties (Note 44(3))	8,082,785,392	8,801,796,709
	10,926,729,292	11,496,111,558

The terms of placements from other banks range from 1 month to 3 years.

20 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2009	31 December 2008
Borrowings from other banks designated at fair value through profit or loss, at fair value	-	51,013,114

(All amounts expressed in Rmb unless otherwise stated)

21 DUE TO CUSTOMERS

	31 December 2009	31 December 2008
At amortized cost		
Corporate current deposits	5,252,202,999	5,190,102,368
Corporate time deposits	10,791,117,685	10,525,703,865
Retail current deposits	608,019,814	202,903,253
Retail time deposits	1,084,759,789	844,064,714
	17,736,100,287	16,762,774,200
Structured investment products (SIPs) at fair value		
SIPs sold to corporate customers	2,062,280,000	1,055,208,000
SIPs sold to retail customers	785,928,729	513,901,850
	2,848,208,729	1,569,109,850
	20,584,309,016	18,331,884,050

22 PAYROLL AND WELFARE PAYABLE

	31 December 2009	31 December 2008
Salary and bonus	47,939,976	28,692,251
Pension benefits	14,601,918	9,775,544
	62,541,894	38,467,795

23 TAXES PAYABLE

	31 December 2009	31 December 2008
Income tax	36,580,161	25,221,015
Business tax and surcharges	17,810,923	20,694,853
Withholding income tax	15,623,926	22,722,941
Individual income tax and others	3,778,083	12,944,058
	73,793,093	81,582,867

24 INTEREST PAYABLE

	31 December 2009	31 December 2008
Due to customers	86,486,102	152,195,555
Due to/placements with other banks and financial institutions	4,464,094	52,839,332
	90,950,196	205,034,887

(All amounts expressed in Rmb unless otherwise stated)

25 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 2008: 25%).

	2009	2008
At beginning of year	83,329,913	82,206,774
Income statement credit (Note 39)	86,697,274	1,123,139
At end of year	170,027,187	83,329,913

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

	31 December 2009	31 December 2008
Allowance for impairment of loans and advances	108,387,676	63,824,737
Provision for impairment of fixed assets	8,313,417	8,313,417
Fair value measurement of financial instruments	5,685,932	(3,753,427)
Unrecoverable interest income from loans	12,428,269	13,955,034
Accrued expenses and others	35,211,893	990,152
	170,027,187	83,329,913

26 OTHER LIABILITIES

	31 December 2009	31 December 2008
Accrued expenses	13,274,989	25,448,913
Unearned commission income	4,134,991	8,343,333
Accounts payable	56,592,186	36,092,926
Payable to overseas related parties (Note 44(3))	121,221,019	120,045,710
Others	2,549,237	13,050,380
	197,772,422	202,981,262

(All amounts expressed in Rmb unless otherwise stated)

27 PAID-IN CAPITAL

	31 December 2009	31 December 2008
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.

28 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.

29 SURPLUS RESERVE

	2009	2008
At beginning of year	39,038,133	7,550,285
Current year addition	11,296,241	31,487,848
At end of year	50,334,374	39,038,133

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.

30 GENERAL RESERVE

	31 December 2009
At beginning of year	-
Current year addition	319,600,000
At end of year	319,600,000

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 10 February 2009, the directors approved the appropriation to the Bank's general reserve amounting to Rmb 319,000,000, being 1% of the aggregate risk assets as of 31 December 2008.

(All amounts expressed in Rmb unless otherwise stated)

31 UNDISTRIBUTED PROFITS

On 2 February 2010, the directors approved the appropriation to the Bank's general reserve amounting to Rmb 1 million.

32 NET INTEREST INCOME

	2009	2008
Interest income:		
Loans and advances	1,340,113,888	1,820,404,775
Placements with other banks	3,345,976	23,285,274
Trading assets	16,243,273	88,269,900
Deposits with other banks	38,598,183	105,350,840
Deposits with the central bank	31,630,123	35,227,717
	1,429,931,443	2,072,538,506
Interest expense:		
Placements from other banks	78,660,319	481,201,119
Due to other banks and financial institutions	38,664,692	67,486,897
Due to customers	294,319,949	414,062,006
	411,644,960	962,750,022
Net interest income	1,018,286,483	1,109,788,484

33 NET FEE AND COMMISSION INCOME

	2009	2008
Fee and commission income		
Settlement and clearing fees	45,197,879	50,758,982
Credit related fees and commissions	100,799,182	59,943,657
Others	467,810	1,872,659
	146,464,871	112,575,298
Fee and commission expense		
Settlement and clearing fees	8,114,320	5,795,671
Net fee and commission income	138,350,551	106,779,627

(All amounts expressed in Rmb unless otherwise stated)

34 INVESTMENT LOSS

	2009	2008
Disposal of trading assets	2,804,199	4,126,828

35 FAIR VALUE GAINS/(LOSSES)

	2009	2008
Net unrealized gains/(losses) on derivative instruments	(88,425,582)	65,647,902
Net unrealized gains/(losses) on trading assets	(14,979,758)	15,943,508
	(103,405,340)	81,591,410

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

	2009	2008
Interest expenses on structured investment products	(79,169,164)	(38,700,000)
Net gains/(losses) from derivatives and foreign exchange transactions	111,669,489	(57,217,980)
	32,500,325	(95,917,980)

37 GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
Salaries and bonus	251,065,686	230,396,368
Social insurance and other welfare benefits	60,850,378	58,053,590
Rental and utilities	90,315,320	67,705,452
Telecommunications and computers	72,086,158	49,034,575
Travelling expenses	7,640,419	10,528,518
Entertainment expenses	2,221,949	2,155,531
Depreciation and amortization	33,011,136	26,630,167
Staff training expenses	1,238,770	2,699,334
Others	64,361,636	52,568,220
	582,791,452	499,771,755

(All amounts expressed in Rmb unless otherwise stated)

38 IMPAIRMENT CHARGE FOR CREDIT LOSSES

	2009	2008
Impairment losses on loans and advances (Note 14(5))	302,024,471	208,131,810
Recovery of loans previously written-off	(4,285,413)	-
	297,739,058	208,131,810

39 INCOME TAX

	2009	2008
Current income tax	117,190,953	93,631,332
Deferred income tax (Note 25)	(86,697,274)	(1,123,139)
	30,493,679	92,508,193

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

	2009	2008
Profit before income tax	143,456,084	407,386,670
Provision for income tax calculated at 25 % (2008: 25%)	35,864,021	101,846,668
Impact of different tax rate in Shenzhen	(5,973,413)	-
Clearance of income tax upon local incorporation	-	(11,604,726)
Effect of expenses not deductible for tax purposes	603,071	2,266,251
	30,493,679	92,508,193

40 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:

	31 December 2009	31 December 2008
Cash (Note 8)	30,497,459	17,644,851
Balances with the PBOC other than restricted reserve deposits (Note 8)	1,060,205,163	2,071,538,792
Deposits with other banks with original terms less than three months from acquisition date	1,784,556,250	3,860,342,350
Placements with other banks with original terms less than three months from acquisition date	1,004,846,000	100,946,250
Total	3,880,104,872	6,050,472,243

(All amounts expressed in Rmb unless otherwise stated)

40 NOTES TO THE STATEMENT OF CASH FLOWS

	Notes	2009	2008
(2) Cash flows from operating activities			
Net profit after tax		112,962,405	314,878,477
Adjusted by:			
Impairment charge for credit losses	38	297,739,058	208,131,810
Depreciation and amortization	37	33,011,136	26,630,167
Loss on disposal of fixed assets, intangible assets and other long-term assets		3,524,986	1,442,330
Fair value gains/(losses)	35	(103,405,340)	81,591,410
Deferred income tax benefits	39	(86,697,274)	(1,123,139)
Increase in operating receivables		(2,204,464,103)	(4,729,822,872)
(Decrease)/increase in operating payables		(180,180,260)	6,477,929,898
Net cash provided from operating activities		(2,127,509,392)	2,379,658,081
(3) Investing and financing activities that do not involve cash receipts and payments		-	-
(4) Net (decrease)/ increase in cash and cash equivalents:			
Cash and cash equivalents at end of year		3,880,104,872	6,050,472,243
Less: cash and cash equivalents at beginning of year		6,050,472,243	3,865,611,051
Net (decrease)/increase in cash and cash equivalents		(2,170,367,371)	2,184,861,192

(All amounts expressed in Rmb unless otherwise stated)

41 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Off-balance sheet items

	31 December 2009	31 December 2008
Letters of guarantee issued	904,062,555	1,069,234,917
Letters of credit issued	494,517,117	441,660,224
Loan commitment	6,444,984,236	6,694,476,540
Bank acceptances	691,254,550	265,150,525
	8,534,818,458	8,470,522,206

(2) Operating lease commitments

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

	31 December 2009	31 December 2008
Within 1 year	81,814,645	77,544,428
Over 1 year less than 2 years	63,640,707	57,095,194
Over 2 year less than 3 years	39,293,536	17,966,943
Over 3 years	93,749,697	8,689,852
	278,498,585	161,296,417

(3) Legal proceedings

At 31 December 2009, there was no significant legal proceeding against the Bank (31 December 2008: nil).

(4) Capital commitments

As at 31 December 2009, the Bank has no significant capital commitments which require separate disclosure (31 December 2008: nil).

42 EVENTS AFTER THE BALANCE SHEET DATE

Up to 2 February 2010, there were no significant post-balance sheet events which are required to be disclosed in the financial statements.

DBS BANK (CHINA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts expressed in Rmb unless otherwise stated)
[English translation for reference only]

43 SEGMENT INFORMATION

For the year ended 31 December 2009	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Others	Elimination	Total
Interest income	28,164,226	794,332,800	197,007,414	317,394,905	119,936,307	49,555,778	14,711,370	(91,171,357)	1,429,931,443
Interest expense	-	(246,142,298)	(67,872,522)	(131,119,617)	(36,367,747)	(17,125,749)	(4,188,384)	91,171,357	(411,644,960)
Net interest income	28,164,226	548,190,502	129,134,892	186,275,288	83,568,560	32,430,029	10,522,986	-	1,018,286,483
Fee and commission income	-	80,768,174	23,704,821	27,155,776	7,396,741	6,188,426	1,250,933	-	146,464,871
Fee and commission expenses	(1,099)	(7,052,436)	(151,675)	(552,028)	(243,896)	(26,567)	(86,619)	-	(8,114,320)
Net fee and commission income	(1,099)	73,715,738	23,553,146	26,603,748	7,152,845	6,161,859	1,164,314	-	138,350,551
Other income/(losses)	(952,528)	(84,507,918)	(604,113)	7,981,909	1,282,922	1,159,981	1,930,533	-	(73,709,214)
Operating expenses	(71,545,224)	(428,542,454)	(87,910,952)	(190,786,381)	(104,643,767)	(35,972,007)	(37,880,626)	-	(957,281,411)
Non-operating income/(losses)	10,952,492	518,701	6,112,943	293,269	1,366	(78,703)	9,607	-	17,809,675
Total profit/(loss) before tax	(33,382,133)	109,374,569	70,285,916	30,367,833	(12,638,074)	3,701,159	(24,253,186)	-	143,456,084
Loans and advances, net	-	16,319,687,558	3,627,035,347	3,989,294,516	1,736,384,417	2,078,882,699	408,628,211	-	28,159,912,748
Total assets	5,554,551,358	24,976,244,913	5,553,536,464	5,523,751,383	2,616,814,608	2,929,898,963	967,701,780	(11,105,037,417)	37,017,462,052
Due to customers	-	(10,205,951,048)	(4,051,479,893)	(3,406,520,563)	(846,746,334)	(1,371,789,763)	(701,821,415)	-	(20,584,309,016)
Total liabilities	(2,773,319,957)	(24,313,906,805)	(5,261,154,056)	(5,168,704,838)	(2,540,082,723)	(2,837,253,969)	(702,162,042)	11,105,037,417	(32,491,546,973)
Impairment charge for credit losses	-	(111,539,172)	(19,698,970)	(93,997,983)	(56,122,156)	(13,410,034)	(2,970,743)	-	(297,739,058)
Depreciation and amortization	(433,728)	(13,234,636)	(6,084,310)	(4,085,503)	(2,558,153)	(1,742,408)	(4,872,398)	-	(33,011,136)
Capital expenditure	4,110,979	35,045,602	309,064	4,838,847	501,182	19,400	9,671,796	-	54,496,870

(All amounts expressed in Rmb unless otherwise stated)

43 SEGMENT INFORMATION(continued)

For the year ended 31 December 2008	Head office	Shanghai	Beijing	Shenzhen	Guangzhou	Suzhou	Others	Elimination	Total
Interest income	35,388,938	1,153,338,942	330,261,403	495,148,803	163,454,450	91,721,192	1,170,085	(197,945,307)	2,072,538,506
Interest expense	-	(597,508,821)	(182,560,720)	(244,555,198)	(78,217,555)	(57,812,489)	(40,546)	197,945,307	(962,750,022)
Net interest income	35,388,938	555,830,121	147,700,683	250,593,605	85,236,895	33,908,703	1,129,539	-	1,109,788,484
Fee and commission income	23,481	53,809,289	14,239,912	34,320,964	7,472,686	2,666,251	42,715	-	112,575,298
Fee and commission expenses	(838)	(406,046)	(310,495)	(2,719,694)	(2,305,009)	(37,539)	(16,050)	-	(5,795,671)
Net fee and commission income	22,643	53,403,243	13,929,417	31,601,270	5,167,677	2,628,712	26,665	-	106,779,627
Other income/(losses)	(89,210,716)	111,473,429	(13,611,201)	(7,076,027)	(10,729,705)	(9,338,552)	39,374	-	(18,453,398)
Operating expenses	(66,513,227)	(389,033,517)	(72,991,885)	(139,404,454)	(94,458,380)	(27,589,780)	(11,402,654)	-	(801,393,897)
Non-operating income/(losses)	6,176,496	3,820,798	(885,467)	1,680,828	(121,112)	(5,689)	-	-	10,665,854
								-	
Total profit/(loss) before tax	(114,135,866)	335,494,074	74,141,547	137,395,222	(14,904,625)	(396,606)	(10,207,076)	-	407,386,670
Loans and advances, net	-	14,597,000,002	3,929,679,224	5,156,684,673	1,658,461,732	1,191,259,269	5,528,530	-	26,538,613,430
Total assets	5,182,058,326	24,268,309,194	6,150,736,872	8,633,945,734	3,208,353,475	1,875,052,119	1,679,857,217	(13,927,284,230)	37,071,028,707
Due to customers	-	(8,911,498,291)	(2,842,879,765)	(3,389,078,207)	(572,930,923)	(1,027,212,066)	(1,588,284,798)	-	(18,331,884,050)
Total liabilities	(2,137,000,808)	(23,715,345,655)	(5,928,640,380)	(8,309,217,327)	(3,118,983,516)	(1,786,108,284)	(1,590,064,293)	13,927,284,230	(32,658,076,033)
Impairment charge for credit losses	-	(115,223,064)	(612,403)	(41,762,817)	(48,700,910)	(1,784,288)	(48,328)	-	(208,131,810)
Depreciation and amortization	(388,361)	(8,870,877)	(2,861,841)	(5,254,344)	(2,026,198)	(1,543,008)	(5,685,538)	-	(26,630,167)
Capital expenditure	-	28,486,543	18,364,192	3,342,424	9,265,020	5,468,708	8,993,689	-	73,920,576

(All amounts expressed in Rmb unless otherwise stated)

43 SEGMENT INFORMATION (continued)

Geographical Information

The Bank's revenue from external customers is mainly from mainland China for 2009 and 2008. As at 31 December 2009 and 2008, all the non-current assets of the Bank are located in mainland China.

Business income

	2009	2008
Consumer Banking Group	99,719,316	27,556,673
Institutional Banking Group	883,328,536	949,791,248
Treasury and Markets	32,653,557	223,342,195
Others	67,226,411	(2,575,403)
Total	1,082,927,820	1,198,114,713

44 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 12,096 million	Koh Boon Hwee

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 2008	Change	31 December 2009
DBS Bank Ltd.	SGD 12,096 Million	-	SGD 12,096 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 2008		Change		31 December 2009	
	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)

44 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. The terms of inter-bank borrowing and lending with related parties follow commercial terms arranged in the ordinary course of the Bank's business.

(2) Significant related party transactions

(i) Interest income

	2009	**2008**
DBS Bank Ltd.	26,280	3,937,183
DBS Bank (Hong Kong) Limited	-	621,667
	26,280	4,558,850

(ii) Interest expense

	2009	**2008**
DBS Bank Ltd.	29,664,513	232,676,439
DBS Bank (Hong Kong) Limited	22,400,290	64,939,659
	52,064,803	297,616,098

(iii) Service charge

	2009	**2008**
DBS Bank Ltd.	24,024,393	11,734,012
DBS Bank (Hong Kong) Limited	6,677,736	-
	30,702,129	11,734,012

(3) Balances with related parties

(i) Due from:

	31 December 2009	**31 December 2008**
DBS Bank Ltd.	10,622,978	9,679,085
DBS Bank (Hong Kong) Limited	92,850,793	78,693,576
	103,473,771	88,372,661

(ii) Other receivables:

	31 December 2009	**31 December 2008**
DBS Bank Ltd.	400,855	1,087,203
DBS Bank (Hong Kong) Limited	3,047,268	57,334,901
	3,448,123	58,422,104

(All amounts expressed in Rmb unless otherwise stated)

44 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(3) Balances with related parties (continued)

(iii) Deposits / placements from:

	31 December 2009	31 December 2008
DBS Bank Ltd.	6,420,404,315	6,730,234,644
DBS Bank (Hong Kong) Limited	1,817,336,159	2,355,994,801
	8,237,740,474	9,086,229,445

(v) Interest payable

	31 December 2009	31 December 2008
DBS Bank Ltd.	576,200	10,868,110
DBS Bank (Hong Kong) Limited	355,030	10,167,807
	931,230	21,035,917

(vi) Other payables:

	31 December 2009	31 December 2008
DBS Bank Ltd.	114,543,283	104,187,129
DBS Bank (Hong Kong) Limited	6,677,736	15,858,581
	121,221,019	120,045,710

(vii) Derivative transactions

	31 December 2009	
	Notional amount	Fair value
Derivative transactions	11,037,990,616	(14,266,155)

	31 December 2008	
	Notional amount	Fair value
Derivative transactions	11,633,385,746	26,392,483

45 FINANCIAL RISK MANAGEMENT

45.1 Risk governance

Under the Bank's risk governance framework, the Board of Directors, through the Board Audit Committee ('China BAC'), oversees the establishment of robust enterprise-wide risk management policies and processes. Where necessary, the Bank sets risk appetite limits to guide risk-taking.

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 China Assets & Liability and Market Risk Committee ('China ALCO&MRC'), China Credit Risk Committee('CCRC') and China Operational Risk Committee('CORC').

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 which is in line with the Bank's risk governance framework.

45.2 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.

45 FINANCIAL RISK MANAGEMENT (continued)

45.2 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 are limited to treasury bonds, PBOC notes and debts of policy banks.

(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.

45 FINANCIAL RISK MANAGEMENT (continued)

45.2 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.

45 FINANCIAL RISK MANAGEMENT (continued)

45.2 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)

45 FINANCIAL RISK MANAGEMENT (continued)

45.2 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 2009	31 December 2008
Deposits with other banks	2,201,238,264	4,614,243,575
Placements with other banks	1,004,846,000	200,946,250
Trading assets	1,438,960,385	744,066,766
Derivative assets	243,499,635	404,927,321
Interest receivable	104,069,876	256,351,932
Loans to corporate entities	22,976,783,311	24,042,175,763
Loans to individuals	5,183,129,437	2,509,782,423
Other financial assets	55,873,952	94,490,286
Subtotal	33,208,400,860	32,866,984,316
Letters of credit issued	494,517,117	441,660,224
Letters of guarantee issued	904,062,555	1,069,234,917
Bank acceptances	691,254,550	265,150,525
Irrevocable loan commitment	622,925,027	702,666,763
Subtotal	2,712,759,249	2,478,712,429
Total	35,921,160,109	35,345,696,745

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2009, 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, 85% of the total on-balance-sheet maximum exposure is derived from loans and advances to customers (31 December 2008: 81 %).

(All amounts expressed in Rmb unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (continued)

45.2 Credit risk (continued)

E Placements with other banks

	31 December 2009	31 December 2008
Neither past due nor impaired	1,004,846,000	200,946,250
Total	1,004,846,000	200,946,250
Less:allowance for impairment losses	-	-
Placements with other banks, net	1,004,846,000	200,946,250

F Loans and advances

	31 December 2009	31 December 2008
Neither past due nor impaired	27,906,623,563	26,081,320,740
Past due but not impaired	404,099,627	386,718,021
Impaired	460,491,359	558,148,288
Total	28,771,214,549	27,026,187,049
Less:allowance for impairment losses	(611,301,801)	(487,573,619)
Net	28,159,912,748	26,538,613,430

The total allowance for impairment of loans and advances amounted to Rmb 611 million (31 December 2008: Rmb 488 million) of which Rmb 292 million (31 December 2008: Rmb 248 million) represents the individually assessed impairment allowance and the remaining amount of Rmb 319 million (31 December 2008: Rmb 239 million) represents the collectively assessed impairment allowance.

F.1 *Loans and advances neither past due or 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 2009			
Pass	22,708,686,188	5,087,020,967	27,795,707,155
Special mention	109,421,253	1,495,155	110,916,408
	22,818,107,441	5,088,516,122	27,906,623,563
31 December 2008			
Pass	23,316,940,365	2,499,604,200	25,816,544,565
Special mention	261,895,368	2,880,807	264,776,175
	23,578,835,733	2,502,485,007	26,081,320,740

(All amounts expressed in Rmb unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (continued)

45.2 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 periods 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 2009					
Corporate loans	128,905,861	152,091,750	2,519,879	-	283,517,490
Retail loans	88,732,808	19,474,769	7,953,978	4,420,582	120,582,137
Total	217,638,669	171,566,519	10,473,857	4,420,582	404,099,627
31 December 2008					
Corporate loans	198,599,587	46,893,683	109,811,995	10,388,857	365,694,122
Retail loans	18,156,665	2,867,234	-	-	21,023,899
Total	216,756,252	49,760,917	109,811,995	10,388,857	386,718,021

As of 31 December 2009, the aggregate fair value of collateral held to support the above corporate loans amounted to Rmb 408 million and that of retail loans amounted to Rmb 238 million (31 December 2008: Rmb 884 million and Rmb 29 million).

F.3 *Loans and advances individually impaired*

	31 December 2009	31 December 2008
Corporate loans	458,466,575	556,585,921
Retail loans	2,024,784	1,562,367
	460,491,359	558,148,288

As of 31 December 2009, the aggregate fair value of collateral held to support the above corporate loans amounted to Rmb 224 million and that of retail loans amounted to Rmb 5 million (31 December 2008: Rmb 376 million and 2.4 million).

(All amounts expressed in Rmb unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (continued)

45.2 Credit risk (continued)

F Loans and advances (continued)

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

The Bank performed specific assessment for above impaired loans and established impairment allowance of Rmb 292 million (31 December 2008: Rmb 248 million) after considering the value of collateral.

(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, 2009, the renegotiated loans held by the Bank amounted to Rmb 35 million (31 December 2008: Rmb 4.4million).

G Trading assets

The tables below analyse the Bank's investment securities by issuer:

Rmb securities	Trading assets
31 December 2009	
PBOC notes	1,378,444,280
Bonds issued by a policy bank	60,516,105
	1,438,960,385

	Trading assets
31 December 2008	
Treasury bonds	32,760,119
PBOC notes	711,306,647
	744,066,766

45 FINANCIAL RISK MANAGEMENT (continued)

45.3 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is separately managed for the Bank's trading portfolio and non-trading portfolio.

(i) Trading market risk

Trading market risk arises from the impact on trading positions of changes in foreign exchange rates and interest rate yields. It also includes the impact from changes in the correlations and volatilities of the above risk factors.

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.

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

China BAC and China ALCO & 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:

45 FINANCIAL RISK MANAGEMENT (continued)

45.3 Market risk (continued)

(i) Trading market risk (continued)

Rmb in million	As at 31 December 2009	1 January 2009 to 31 December 2009* Average	Highest	Lowest
Total	3.40	6.95	17.02	1.90

	As at 31 December 2008	1 January 2008 to 31 December 2008** Average	Highest	Lowest
Total	4.57	5.23	10.94	1.90

* using a 1-year historical observation period effective from 1 June 2009
** using a 2-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. The market risks arising in the course of managing surplus funds are monitored using risk sensitivity measures.

China BAC and Senior Management Committees oversee non-trading market risk and allocate core limits to risk taking units. China ALCO&MRC is responsible for managing the risks, 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. Foreign currency loans in fundable currencies are generally funded in the same foreign currencies. However, positions arising from currencies which have high hedging costs or which are illiquid or controlled, will be reviewed by China ALCO&MRC and may be managed with alternative strategies or left unhedged. 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)

45 FINANCIAL RISK MANAGEMENT (continued)

45.3 Market risk (continued)

(ii) Non-trading market risk (continued)

A Currency Risk (continued)

31 December 2009	RMB	USD	HKD	Other currencies	Total
Assets					
Cash and deposits with the central bank	3,220,569,607	236,210,534	29,403,758	-	3,486,183,899
Deposits with other banks	164,650,082	1,792,054,965	127,031,047	117,502,170	2,201,238,264
Placements with other banks	800,000,000	204,846,000	-	-	1,004,846,000
Trading assets	1,438,960,385	-	-	-	1,438,960,385
Derivative assets	90,855,894	149,232,430	2,531,718	879,593	243,499,635
Interest receivables	86,473,455	15,605,359	1,809,048	182,014	104,069,876
Loans and advances	17,856,781,131	8,355,451,288	1,890,836,279	56,844,050	28,159,912,748
Fixed assets	61,658,080	-	-	-	61,658,080
Long-term prepaid expenses	60,497,654	-	-	-	60,497,654
Deferred income tax assets	144,951,001	25,076,186	-	-	170,027,187
Other assets	84,081,953	1,443,569	122,703	920,099	86,568,324
Total assets	24,009,479,242	10,779,920,331	2,051,734,553	176,327,926	37,017,462,052
Liabilities					
Due to other banks and financial institutions	95,142,821	85,297,327	89,356,677	-	269,796,825
Placements from other banks	1,550,000,000	8,680,690,660	691,176,800	4,861,832	10,926,729,292
Derivative liabilities	99,834,679	182,739,622	2,113,566	966,368	285,654,235
Due to customers	16,900,643,601	3,245,325,155	220,768,362	217,571,898	20,584,309,016
Payroll and welfare payable	62,541,894	-	-	-	62,541,894
Taxes payable	73,675,060	96,857	21,176	-	73,793,093
Interest payable	82,316,731	7,569,991	626,568	436,906	90,950,196
Other liabilities	186,723,243	2,285,864	6,208,785	2,554,530	197,772,422
Total liabilities	19,050,876,528	12,204,006,977	1,010,271,934	226,391,534	32,491,546,973
Net on-balance sheet position	4,958,602,714	(1,424,086,646)	1,041,462,619	(50,063,608)	4,525,915,079
Financial guarantees and credit related commitments	4,712,975,424	3,164,644,605	435,373,378	221,825,051	8,534,818,458

(All amounts expressed in Rmb unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (continued)

45.3 Market risk (continued)

(ii) Non-trading market risk (continued)

A Currency Risk (continued)

31 December 2008	RMB	USD	HKD	Other currencies	Total
Assets					
Cash and deposits with the central bank	3,809,657,636	169,113,757	29,858,199	262,777	4,008,892,369
Deposits with other banks	852,802,741	3,548,679,150	95,729,094	117,032,590	4,614,243,575
Placements with other banks	200,000,000	-	-	946,250	200,946,250
Trading assets	744,066,766	-	-	-	744,066,766
Derivative assets	132,593,603	5,445,545	248,921,781	17,966,392	404,927,321
Interest receivables	126,035,185	117,648,388	5,110,355	7,558,004	256,351,932
Loans and advances	17,025,154,279	6,941,164,894	2,312,629,962	259,664,295	26,538,613,430
Fixed assets	26,089,432	-	-	-	26,089,432
Long-term prepaid expenses	78,913,994	-	-	-	78,913,994
Deferred income tax assets	83,329,913	-	-	-	83,329,913
Other assets	56,406,068	26,898,965	18,663,063	12,685,629	114,653,725
Total assets	23,135,049,617	10,808,950,699	2,710,912,454	416,115,937	37,071,028,707
Liabilities					
Due to other banks and financial institutions	1,548,569,210	302,543,350	41,230,079	1,521	1,892,344,160
Placements from other banks	2,307,757,057	7,967,061,098	1,000,466,153	220,827,250	11,496,111,558
Financial liabilities at fair value through profit or loss	-	51,013,114	-	-	51,013,114
Derivative liabilities	271,359,769	10,190,393	47,356,299	29,749,879	358,656,340
Due to customers	13,235,980,908	4,716,752,687	277,381,397	101,769,058	18,331,884,050
Payroll and welfare payable	38,467,795	-	-	-	38,467,795
Taxes payable	74,640,020	216,038	1,573,487	5,153,322	81,582,867
Interest payable	149,749,418	50,765,944	2,371,679	2,147,846	205,034,887
Other liabilities	175,848,330	9,359,548	12,067,764	5,705,620	202,981,262
Total liabilities	17,802,372,507	13,107,902,172	1,382,446,858	365,354,496	32,658,076,033
Net on-balance sheet position	5,332,677,110	(2,298,951,473)	1,328,465,596	50,761,441	4,412,952,674
Financial guarantees and credit related commitments	4,185,283,297	3,660,549,262	352,155,148	272,534,499	8,470,522,206

45 FINANCIAL RISK MANAGEMENT (continued)

45.3 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 former source of non-trading interest rate risk is sensitivity-based analysis. This risk is subject to limits established by China ALCO&MRC.

The estimated value volatility for major positions in RMB, HKD, EUR and USD from this source of non-trading interest rate risk as at 31 December 2009 assuming a 25 basis point increase in general interest rates for these currencies was an increase of Rmb 2.2 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. This risk is subject to limits established by China ALCO&MRC. To monitor this risk, the Group uses sensitivity analysis.

The estimated value volatility for major positions in RMB and USD from this source of non-trading interest rate risk as at 31 December 2009 assuming a 25 basis point increase in general interest rates for these currencies was an increase of Rmb 9.16 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.

(All amounts expressed in Rmb unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (continued)

45.3 Market risk (continued)

(ii) Non-trading market risk (continued)

B Interest rate risk (continued)

31 December 2009	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	3,228,157,311	-	-	-	258,026,588	3,486,183,899
Deposits with other banks	2,201,238,264	-	-	-	-	2,201,238,264
Placements with other banks	1,004,846,000	-	-	-	-	1,004,846,000
Trading assets	1,378,444,280	60,516,105	-	-	-	1,438,960,385
Derivative assets	-	-	-	-	243,499,635	243,499,635
Interest receivables	-	-	-	-	104,069,876	104,069,876
Loans and advances	16,436,031,784	7,396,993,405	4,091,831,929	64,077,590	170,978,040	28,159,912,748
Fixed assets	-	-	-	-	61,658,080	61,658,080
Long-term prepaid expenses	-	-	-	-	60,497,654	60,497,654
Deferred income tax assets	-	-	-	-	170,027,187	170,027,187
Other assets	-	-	-	-	86,568,324	86,568,324
Total assets	24,442,924,790	7,457,509,510	4,091,831,929	64,077,590	961,118,233	37,017,462,052
Liabilities						
Due to other banks and financial institutions	158,937,284	110,859,541	-	-	-	269,796,825
Placements from other banks	10,926,729,292	-	-	-	-	10,926,729,292
Derivative liabilities	-	-	-	-	285,654,235	285,654,235
Due to customers	9,473,897,668	8,483,330,302	2,627,081,046	-	-	20,584,309,016
Payroll and welfare payable	-	-	-	-	62,541,894	62,541,894
Taxes payable	-	-	-	-	73,793,093	73,793,093
Interest payable	-	-	-	-	90,950,196	90,950,196
Other liabilities	-	-	-	-	197,772,422	197,772,422
Total liabilities	20,549,934,447	8,594,189,843	2,627,081,046	-	720,341,637	32,491,546,973
Net interest re-pricing gap	3,883,360,546	(1,136,680,333)	1,464,750,883	64,077,590	250,406,393	4,525,915,079

(All amounts expressed in Rmb unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (continued)

45.3 Market risk (continued)

(ii) Non-trading market risk (continued)

B Interest rate risk (continued)

31 December 2008	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	3,792,374,718	-	-	-	216,517,651	4,008,892,369
Deposits with other banks	4,545,897,575	68,346,000	-	-	-	4,614,243,575
Placements with other banks	200,946,250	-	-	-	-	200,946,250
Trading assets	-	-	711,306,647	32,760,119	-	744,066,766
Derivative assets	-	-	-	-	404,927,321	404,927,321
Interest receivables	-	-	-	-	256,351,932	256,351,932
Loans and advances	16,902,614,476	4,036,481,634	5,276,123,101	63,658,020	259,736,199	26,538,613,430
Fixed assets	-	-	-	-	26,089,432	26,089,432
Long-term prepaid expenses	-	-	-	-	78,913,994	78,913,994
Deferred income tax assets	-	-	-	-	83,329,913	83,329,913
Other assets	-	-	-	-	114,653,725	114,653,725
Total assets	25,441,833,019	4,104,827,634	5,987,429,748	96,418,139	1,440,520,167	37,071,028,707
Liabilities						
Due to other banks and financial institutions	1,290,044,160	602,300,000	-	-	-	1,892,344,160
Placements from other banks	10,593,366,858	902,744,700	-	-	-	11,496,111,558
Financial liabilities at fair value through profit or loss	-	51,013,114	-	-	-	51,013,114
Derivative liabilities	-	-	-	-	358,656,340	358,656,340
Due to customers	12,337,587,340	3,451,111,617	2,543,185,093	-	-	18,331,884,050
Payroll and welfare payable	-	-	-	-	38,467,795	38,467,795
Taxes payable	-	-	-	-	81,582,867	81,582,867
Interest payable	-	-	-	-	205,034,887	205,034,887
Other liabilities	-	-	-	-	202,981,262	202,981,262
Total liabilities	24,220,998,358	5,007,169,431	2,543,185,093	-	886,723,151	32,658,076,033
Net interest re-pricing gap	1,220,834,661	(902,341,797)	3,444,244,655	96,418,139	553,797,016	4,412,952,674

45 FINANCIAL RISK MANAGEMENT (continued)

45.4 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 cashflows under defined scenarios. This is monitored over successive time bands and across major functional currencies under normal and adverse market scenario conditions.

China ALCO&MRC is the primary parties responsible for liquidity management based on framework approved by China BAC.

Limits are set on maturity mismatches over books under normal and stress scenarios and liquidity ratios. As part of liquidity management, the Group 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 focuses on a number of components. 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)

45 FINANCIAL RISK MANAGEMENT (continued)

45.4 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 2009						
Financial Liabilities						
Due to other banks and financial institutions	180,879,517	44,010,234	45,142,339	-	-	270,032,090
Placements from other banks	4,797,202,425	4,346,997,171	464,860,328	1,336,295,762	-	10,945,355,686
Due to customers	8,984,168,788	2,947,987,806	6,124,391,079	2,666,596,064	-	20,723,143,737
Total financial liabilities	13,962,250,730	7,338,995,211	6,634,393,746	4,002,891,826	-	31,938,531,513
Financial Assets						
Cash and deposits with the central bank	3,487,194,101	-	-	-	-	3,487,194,101
Deposits with other banks	2,133,299,054	68,528,961	-	-	-	2,201,828,015
Placements with other banks	1,005,259,390	-	-	-	-	1,005,259,390
Trading assets	400,000,000	934,122,000	113,392,000	-	-	1,447,514,000
Loans and advances	1,916,459,512	4,146,620,739	9,289,134,205	10,353,139,956	6,638,195,900	32,343,550,312
Total financial assets	8,942,212,057	5,149,271,700	9,402,526,205	10,353,139,956	6,638,195,900	40,485,345,818
Net cash flows	(5,020,038,673)	(2,189,723,511)	2,768,132,459	6,350,248,130	6,638,195,900	8,546,814,305

(All amounts expressed in Rmb unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (continued)

45.4 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 2008						
Financial Liabilities						
Due to other banks and financial institutions	498,102,102	806,097,248	614,623,991	-	-	1,918,823,341
Financial liabilities at fair value through profit or loss	-	-	51,271,591	-	-	51,271,591
Placements from other banks	5,524,188,413	3,041,112,853	925,320,609	2,161,480,274	-	11,652,102,149
Due to customers	9,157,741,009	3,248,247,901	3,554,936,753	2,549,739,669	-	18,510,665,332
Total financial liabilities	15,180,031,524	7,095,458,002	5,146,152,944	4,711,219,943	-	32,132,862,413
Financial Assets						
Cash and deposits with the central bank	4,009,724,150	-	-	-	-	4,009,724,150
Deposits with other banks	3,799,152,825	772,891,249	70,258,605	-	-	4,642,302,679
Placements with other banks	101,179,048	102,498,288	-	-	-	203,677,336
Trading assets	-	30,771,000	736,000	716,748,000	38,150,000	786,405,000
Loans and advances	3,483,241,661	4,173,443,210	6,714,487,000	12,943,271,153	3,713,580,899	31,028,023,923
Total financial assets	11,393,297,684	5,079,603,747	6,785,481,605	13,660,019,153	3,751,730,899	40,670,133,088
Net cash flows	(3,786,733,840)	(2,015,854,255)	1,639,328,661	8,948,799,210	3,751,730,899	8,537,270,675

(All amounts expressed in Rmb unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (continued)

45.4 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 2009						
Interest rate derivatives	1,940,998	3,499,666	12,825,844	(9,633,986)	864,477	9,496,999
31 December 2008						
Interest rate derivatives	2,655,705	532,309	1,797,660	10,994,683	-	15,980,357

(All amounts expressed in Rmb unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (continued)

45.4 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 include:

- Foreign exchange derivatives: 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 2009						
Foreign exchange derivatives						
− Outflow	18,629,565,563	11,629,560,805	47,660,348,560	1,300,111,184	-	79,219,586,112
− Inflow	18,627,072,838	11,630,114,170	47,675,119,442	1,301,073,911	-	79,233,380,361
As at 31 December 2008						
Foreign exchange derivatives						
− Outflow	11,439,180,480	5,626,135,815	18,057,657,032	441,146,979	-	35,564,120,306
− Inflow	11,448,026,420	5,600,963,092	18,005,475,141	439,338,567	-	35,493,803,220

(All amounts expressed in Rmb unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (continued)

45.4 Liquidity risk (continued)

C Off-balance sheet items

	No later than 1 year	1-5 years	Over 5 years	Total
31 December 2009				
Letters of guarantee issued	684,763,930	193,369,695	25,928,930	904,062,555
Letters of credit issued	494,517,117	-	-	494,517,117
Irrevocable loan commitment	180,076,879	375,052,198	67,795,950	622,925,027
Bank acceptances	691,254,550	-	-	691,254,550
Operating lease commitments	81,814,645	196,683,940	-	278,498,585
Total	2,132,427,121	765,105,833	93,724,880	2,991,257,834
31 December 2008				
Letters of guarantee issued	692,912,420	350,353,824	25,968,673	1,069,234,917
Letters of credit issued	441,660,224	-	-	441,660,224
Irrevocable loan commitment	56,244,747	504,489,148	141,932,868	702,666,763
Bank acceptances	265,150,525	-	-	265,150,525
Operating lease commitments	77,544,428	83,751,989	-	161,296,417
Total	1,533,512,344	938,594,961	167,901,543	2,640,008,846

45.5 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)

45 FINANCIAL RISK MANAGEMENT (continued)

45.6 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 for the year ended 31 December 2009.

	31 December 2009	31 December 2008
Tier 1 capital		
Paid-in capital	4,000,000,000	4,000,000,000
Capital surplus	22,571,343	22,571,343
Surplus reserve	50,334,374	39,038,133
General reserve	319,600,000	-
Undistributed profits	133,409,362	351,343,198
Less: unrealized fair value gains of trading securities and derivatives (i)	-	(61,193,558)
Net Tier 1 Capital	4,525,915,079	4,351,759,116
Tier 2 capital		
Unrealized fair value gains of trading securities and derivatives (i)	-	61,193,558
Net Tier 2 capital	-	61,193,558
Total regulatory capital	4,525,915,079	4,412,952,674
Total risk-weighted assets	25,680,025,137	25,275,387,646
Core capital adequacy ratio	17.62%	17.22%
Capital adequacy ratio	17.62%	17.46%

(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 trading financial instruments should be excluded from tier 1 capital base, after deducting the impact of corporate income tax, and included in tier 2 capital base instead.

46 RECLASSIFICATION OF COMPARATIVE FIGURES

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