广东发展银行

GUANGDONG DEVELOPMENT BANK

Annual Report 2009

Financial Summary of 2009

Indicator	2009	2008	Growth
Shareholders' equity (In millions of RMB)	22,190	2008: 19,602	13.2%
Total assets (In millions of RMB)	666,487	2008: 546,015	22.1%
Deposits (In millions of RMB)	543,890	2008: 404,655	34.4%
Return on equity (%)	16.21%	2008: 15.80%	0.41%
Loan provision coverage ratio (%)	156.1%	2008: 150.6%	5.5%
Net capital (In millions of RMB)	34,284	2008: 32,074	6.9%
Net assets per share (RMB yuan)	1.85	2008: 1.72	7.6%
Non-performing loan rate (%)	2.40%	2008: 2.85%	0.45%

广东发展银行
GUANGDONG DEVELOPMENT BANK
二零零九年年度报告

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Important Notice

- The Board of Directors, Directors and Senior Managers of the Bank warrant that there are no fraudulent disclosures or misleading statements contained in or any material omissions from this report, and are individually and jointly responsible for the authenticity, accuracy and completeness of the information contained in this report.
- Annual Report 2009 of Guangdong Development Bank Co., Ltd. was reviewed and approved by the First Extraordinary Meeting in 2010 of the Fifth Board of Directors of the Bank. 17 Directors were required to be present at the meeting, and 14 Directors were in attendance. Director Pu Jian authorized Director Li Zimin in writing to exercise the right to vote on his behalf, Director Gai Yongguang authorized Director Lin Jianjun in writing to exercise the right to vote on his behalf, Director Anthony P Dellla Pietra Jr authorized Director Zhang Shengman in writing to exercise the right to vote on his behalf.
- KPMG Huazhen Accounting Firm has audited the Bank's 2009 Financial Statements according to the Professional Auditing Standard for China's Certified Public Accountants, and has issued unqualified audit opinion.
- This report is prepared in both Chinese and English. In the case of any discrepancies, the Chinese version shall prevail.
- Apart from historical fact, certain sections in this report contain forward-looking statements, such as statements that include the words relating to the Bank's future financial position, strategy, planning and the management's mapping of future operations. The Bank's future performance and development may vary due to various factors and uncertainties. The Bank would not undertake the obligations to update or revise any of the forward-looking statement.

The Board of Directors of Guangdong Development Bank Co., Ltd.

Chairman Dong Jianyue, President Michael Zink, Deputy-President and Chief Financial Officer Edward Chou and Head of Financial Institution Sun Fei ensure the authenticity and completeness of financial statements in 2009 Annual Report.

In 2009, the global economy witnessed drastic fluctuation, which deteriorated before recovery. The global stock market was the first to be on the mend, with bulk commodity price beginning to rebound after hitting the bottom, international oil price climbing while maintaining stability and the signs of economic recovery starting to show. As the essential emerging economy around the globe, China promptly promulgated a basket of stimulus policy in the face of the hit by financial crisis in an effort to stimulate domestic demand and ensure economic growth, which achieved positive results. Globally, the Chinese economy became the first to be stabilized.

In the face of the complex economic and financial situation home and abroad, the Bank withstood various arduous challenges thanks to the concerted efforts and encouraged advancement bank-wide. The Bank persevered in steering the bank-wide development by upholding the theory of scientific development outlook and focusing on the strategic objective of building the Bank into a first-class commercial bank. While implementing reform with staunch determination, the Bank adhered to the principles of Adjusting Structure, Building up Foundation, Enhancing Innovation and Bolstering Development, accomplishing evident progress in various areas such as corporate governance optimization, risk management and internal control capability upgrade, credit asset quality improvement and promotion of sound business development, with operating performance continuously improving. In 2009, the Bank achieved an EAT up to RMB 3.39 billion, up 21.7% YoY; the average ROE stood at 16.21%, up 0.41 percentile YoY; the NPL ratio was 2.4%, down 0.45 percentile YoY, with provision coverage ratio up to 156.1%, up 5.5 percentiles YoY.

The Bank attaches great importance to the consistent improvement of corporate governance mechanism. In 2009, the Bank timely disclosed material matters in relation to corporate governance with open channels such as websites and media, striving to strengthen the transparency of information disclosure. Moreover, the Bank improved the management of investor relationship and consolidated communications with rating agencies, effectively improving our social image and market reputation. The Bank perfected the routine information exchange and coordination mechanism between Directors, Supervisors and the Senior Management team and enhanced trainings to further upgrade the awareness and performance capability of Directors and Supervisors, constantly stepping up the corporate governance capability and operation efficiency.

The Bank paid close attention to the strategy management and strategy transformation. Emphasis has been attached to further clarify business and development field that enjoys comparative advantages and propose strategic development planning for the next 5 years under the new situation. The Bank focused on process re-engineering, in which customer-oriented process reform has been carried out to optimize function division of departments in accordance with principle of effective Front-Middle-Back Office Separation. Besides, with continuous efforts on outlet expansion, Changsha Branch was successfully open for business, and preparation of Tianjin Branch made a big headway.

With great concern to financial situation changes and those changes' requirements on internal control for banking industry, learning from successful experience of international advanced banks, the Bank made further effort to enhance risk management, and focus on risk management method, and risk management technology's update and bringing in. Insisting on the priority of capital constraints, the Bank reinforced capital management and formulated capital management planning for 2010-2012, achieving scientific and dynamic capital management. The Bank took the initiative to adjust credit structure and customer structure for the purpose of developing capital-saving business and increasing the income proportion of fee-based business and non-interest business. Moreover, the Bank promoted audit system reform, in which vertical audit system has been established in one step and internal control capability has been improved.

GDB effectively executed its social responsibilities as a corporate citizen, realizing harmonious development with interest-related parties and achieving sustainable development capacity. The Bank gained a profound understanding that SMEs play an important role in national economy development, and established SME financial dedicated institution according to regulatory requirement. Under the premise of strict risk management, the Bank proactively improved SME financial service and efficiency, so as to achieve effective and sound development for GDB business. In anniversary of Wenchun Earthquake, the Bank assembled volunteers to visit Wenchun students in Guangdong. The Bank further developed poverty-relief work and dispatched two cadres to Xinnan Village which is one poor village in Shaoguan, Wengyuan for aiding poor peasants. Besides, the "Charity-China Tour in 2009" set sail again. Volunteers stayed at Debao, one poor area in Guangxi, to help local students for improvement of learning environment and living condition. All these love and charity have got social acknowledgement and praise, and the society awarded "Charity and Commonweal Innovation Award" to the Bank.

All these achievements are due to strong support of customers and shareholders, and closely connected with diligent work of Board of Directors, Board of Supervisors and all staff of GDB. Hereby I extend my heartfelt thanks to all of them!

Looking ahead of 2010, the growth basis of international and domestic economy is still built on the sand, and various structural contradictions are hard to be resolved in short time. Along with that the focus of national macro financial policies shifts to both of economy structure adjustment and inflation expectation management, the Chinese economy is expected to keep sound and faster development. Facing challenges and opportunities, the Bank will make efforts to lay a solid foundation, focus on reform and go all out to promote development, aiming to improve market competitiveness.

2010 marks an important year in which Guangfa is marching toward the objective of becoming a first-class commercial bank. I firmly believe that, with the great support of all shareholders and the Board of Directors and with several years' endeavor of all staff, the Bank is bound to become a modern commercial bank with core competitive advantages and capability in providing first-class financial services.

Chairman
Dong Jianyue

The year 2009 was a significant year in the history of Guangdong Development Bank. In a year when the global financial crisis brought a general sense of uncertainty, the management of Guangfa continued to lay down a solid foundation for future growth. Despite the adversities of the business environment, with the confidence and support from our stakeholders, in the past 12 months, the Bank focused on executing the strategies set by the Board of Directors, and achieved record-breaking results in the rapid growth of assets and liabilities business, and in the remarkable increase of loans and deposits. Financial indicators continued to improve within budget, and successes extended to the collection and disposal of non-performing assets.

As at the end of 2009, total assets, liabilities, equity attributable to the shareholders of the Bank amounted to RMB666.5 billion, RMB644.3 billion, and RMB22.2 billion, representing a year-on-year increase of 22.1%, 22.4% and 13.2% respectively. Total loans balance grew to RMB380.9 billion, or 22%, and total deposit balance increased over RMB100 billion for the first time in a single year to RMB543.9 billion, or 34.4%. The Bank recorded a profit after tax of RMB3.39 billion, an increase of 21.7% on that of last year. Average ROE was up 0.41% to 16.21%. The Bank's credit cards business continued to be profitable for five consecutive years and was presented 12 awards within one year, including the Most Competitive Credit Cards, and the Best Lady Credit Cards.

In 2009, GDB maintained a disciplined and effective approach to risk management. As at the end of 2009, Non-performing loan ratio declined to 2.4%, or 0.45 percentage points. Provision coverage ratio increased by 5.5 percentage points to 156.1%, demonstrating a continuous improvement in the Bank's capability to cover risks. To continue the Bank's transformation of credit approval processes, the Bank set up a credit approval center in the northern part of the national market with a view to perfecting credit examination and increasing approval efficiency. Quantitative risk management techniques were utilized in a wider scope within the Bank, and stress-testing was performed on major business lines and industry credit assets. The Bank further strengthened the application of quantitative techniques for credit risks in the evaluation of client rating, and launched research and development in a corporate-client credit rating scorecard that was indexed to default rates. To strengthen a comprehensive risk quota management framework, the Bank set up a risk market management system, and steadily rolled out the identification, accounting, monitoring and management of market risks.

During the year, the Bank strengthened internal control and raised its awareness level across the franchise. The function improved on the organizational structure, and initiatives were launched to enable a stronger hand against money laundry activities. The Bank also took proactive actions to reform the audit system. In accordance with a tier-two structure that comprises the Headquarter Audit Department and regional audit centers, the Bank built an independent audit system reporting directly to the Board of Directors by establishing regional audit centers in Beijing, Shanghai and Guangzhou, and retiring the audit departments at branch levels.

A very positive change was waged in the area of human resources and the transformation of organizational structure. By promoting a human resources management system that underlies an effective management of positions, compensation, and performance, the Bank forged a talent recruitment platform that is competitive, flexible and transparent. A unified operation system was installed and the Bank continued the development of the back-office Process Redesign and Re-engineering Projects. A Headquarter department dedicated to SMEs financial services was established for bank-wide marketing and operation of SMEs services. Corporate Banking's marketing functions were also enhanced with a more professional management in capital market businesses.

The Bank also strengthened its infrastructure development by intensifying efforts in the implementation of the IT Strategic Planning Projects. With a view to providing a rock-solid infrastructure to key businesses, the Bank spearheaded the construction of a Nanhai Financial Service Center, completing site selection and initial planning by year end. A sustainable capital replenishment mechanism was in place and a public listing initiative was put in the fast track. A corporate re-branding campaign was also launched to create a new look and feel for the Bank.

The year 2009 was also one in which the Bank's outlet expansion experienced landmark successes. Within one year, the Bank opened a new branch in Changsha, the first of its new branch since 2003, and received regulatory approval to set up branch in Tianjin. At the same time, the Bank was granted regulatory approvals to set up two tier-two branches in Suzhou and Pingdingshan, and three cross-city sub-branches in Anshan of Liaoning Province, Ruian of Zhejiang Province, Huangshi of Hubei Province respectively. To enhance the Bank's overall competitiveness in the Guangzhou area, the Headquarter Domestic Banking Department was combined into the Guangzhou Branch.

2010 will be a critical year of the Bank's strategic development. The Bank will continue to deepen the reform, focus on enhancing core competence and proactively meeting the challenge of achieving a sustainable growth that balances speed and quality. This is to be done by accelerating human resources and operation transformation, optimizing business structure and streamlining business units, strengthening risk management and internal control, emphasizing infrastructure building and product innovation. Ultimately, the goal is to build a first-class commercial bank as soon as possible.

I am taking this opportunity to express our gratitude to the Board of Directors and the Board of Supervisors for their confidence and guidance. To our investors and the community, for their trust and support. To our employees, for their sacrifices and hard work. We look forward with enthusiasm to working together for a better Guangfa.

President
Michael Zink

Guangdong Development Bank (GDB) is one of joint-stock commercial banks which were established earliest in China's reform and opening-up. Based on the principle of financial innovation, the Bank explored a characteristic road of running a modern commercial bank. At the end of 2006, GDB completed the reform and restructuring successfully, introduced outstanding domestic and overseas strategic investors, built up an international Board of Directors and Senior Management Team, and orderly promoted the strategic transformation of business development pattern and profit-making pattern. After more than 20 years' development, GDB completed the evolution from a local and regional bank to a nationwide joint-stock commercial bank, various businesses kept continous, rapid and healthy development, profitability and market competitiveness were constantly improved, and an objective condition and reality foundation were created for future soaring and development.


中国中材集团有限公司 广东发展银行
银企战略合作协议签约仪式
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Corporate Profile

1. **Statutory Name in Chinese: 广东发展银行股份有限公司**
   (Abbreviation: 广东发展银行 or 广发银行)
   Statutory name in English: Guangdong Development Bank Co., Ltd.
   (Abbreviation: GDB)

2. **Profile**
   As approved by the State Council and PBoC to be a national joint-stock commercial bank, Guangdong Development Bank (GDB) was officially established on 8th September 1988 and headquartered in Guangzhou. By the end of 2009, it has total assets amounting to RMB 666.5 billion. The Bank has established 28 branches directly under Head Office and a total of 521 outlets among economically-advanced regions such as the Pearl River Delta, Yangtze River Delta, Bohai Sea Rim Region and the Macao SAR, along with representative offices in Beijing and Hong Kong.

   ### Business Philosophy
   Develop various commercial banking businesses in line with the principles of equality, free will, fairness and honesty; promote and support the development of national economy and the overall prosperity of society; and seek the benefit for the interests of shareholders at the maximum extent.

   The Bank shall regard safety, mobility and profitability as its principles of operation, and shall operate independently at its own risk, assume sole responsibility for its profits and losses and be self-disciplined.

   ### Business Scope
   Taking public deposits; granting short-term, mid-term and long-term loans; handling settlements in and out of China; honoring bills and offering discounting services; issuing financial bonds; issuing, paying for and underwriting government bonds as an agent; sales and purchases of negotiable securities such as government bonds and financial bonds; inter-bank borrowings; providing letters of credit and security; engaging in banking card business; acting as payment and receipt agent and insurance agent; providing safe deposit box services; taking deposits and granting loans in foreign currency; foreign currency remittance; foreign currency exchange; international settlements; foreign exchange settlements and sales; inter-bank foreign currency borrowings; honoring bills of exchange and offering discounting services in foreign currency; granting foreign currency loans; granting foreign currency guarantees; sales and purchases of negotiable securities other than shares in a foreign currency for itself and as an agent; issuing negotiable securities other than shares in a foreign currency for itself and as an agent; sales and purchases of foreign exchange on its own account and on behalf of its customers; issuing and making payments for foreign credit cards as an agent; offshore financial operations; assets and credit verification, consultation and notarization businesses; other businesses approved by the China Banking Regulatory Commission (hereinafter as CBRC) and other relevant authorities.

3. **Legal Representative: Dong Jianyue**

4. **Secretary to the Board of Directors: Zheng Xiaolong**

5. **Registered Office Address: 83, Nonglinxia Road, Guangzhou, Guangdong Province, P.R. China**
   Postcode: 510080
   Tel: 86-20-38322888
   Fax: 86-20-87310779
   Website: www.gdb.com.cn

6. Place for Obtaining Annual Report: Office of Board of Directors of GDB

7. Other Relevant Information

   Authority of registration: Guangdong Provincial Administration for Industry and Commerce of PRC
   Corporate business license serial number: 440000000046541
   Financial institution license serial number: B0012H144010001
   Tax registration certificate number: Yue State Tax 440101190336428
   Yue Local Tax 440102190336428
   Organization code: 19033642-8

8. Engaged Domestic Auditor: KPMG Huazhen Certified Public Accountants

   Office Address: 8th Floor, Tower E2, Oriental Plaza, 1 East Chang'an Avenue, Beijing, China

9. This report was prepared in accordance with the Measures on Information Disclosure of Commercial Banks by CBRC, as well as the Notice on Regulating the Contents of Annual Reports of Join-stock Commercial Banks promulgated by CBRC.

Financial Highlights

1. Major Indicators of Profit

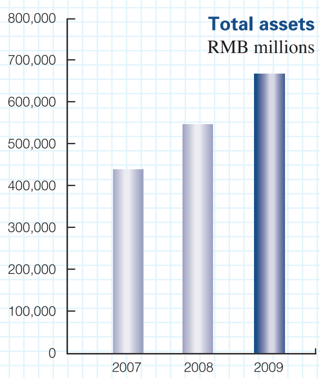
Unit: 1,000 RMB

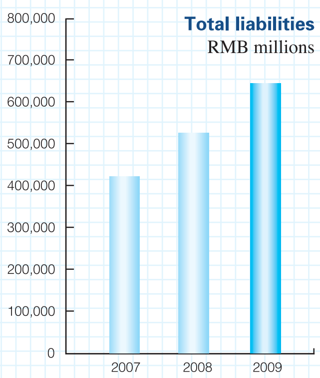
Item	Amount
Gross profit	5,011,562
Net profit	3,387,131
Operating profit	5,021,097
Investment income	51,008
Net non-operating income and expenses	(9,535)

2. Three-year Financial Summary

Unit: 1,000 RMB

Item	2009	2008	2007
Total operating income	**15,114,715**	17,710,991	12,367,993
Gross profit	**5,011,562**	3,083,631	4,988,008
Net profit	**3,387,131**	2,784,008	2,681,665
Total assets	**666,486,624**	546,015,349	437,726,745
Total liabilities	**644,296,593**	526,413,634	422,096,137
Balance of deposits	**543,890,399**	404,654,710	352,735,392
Balance of loans	**380,875,019**	311,698,506	248,386,345
Shareholders' equity	**22,190,031**	19,601,715	15,630,608
Cost earning ratio (%)	**48**	37	45
Earnings per share (RMB yuan)	**0.28**	0.24	0.24
Net assets per share (RMB yuan)	**1.85**	1.72	1.37
Net cash flows from operating activities	**43,297,949**	4,453,873	(5,770,636)
Net cash flows from operating activities per share (RMB yuan)	**3.61**	0.39	(0.51)
Return on equity (%)	**16.21**	15.80	18.66
Return on assets (%)	**0.56**	0.57	0.66





3. Additional Financial Indicators in the Past Three Years as of the Reporting Period

Major indicators		Regulatory indicators (%)	End of 2009 (%)	End of 2008(%)	End of 2007 (%)
Capital adequacy ratio		⩾ 8	**8.98**	11.63	7.14
Non-performing loan rate		⩽ 5	**2.40**	2.85	4.00
Loan Provision Coverage Ratio		⩾ 150	**156.08**	150.6	79.92
Loan/deposit ratio	RMB	⩽ 75	**68.16**	74.80	68.66
	FX	⩽ 85	**67.70**	47.61	56.98
	Converted into RMB	⩽ 75	**70.03**	73.97	68.19
Ratio of assets liquidity	RMB	⩾ 25	**54.28**	52.59	36.46
	FX	⩾ 60	**64.81**	120.82	168.18
Proportion of Call loans	Called-in RMB	⩽ 4	**0.4**	2.84	0.04
	Called-out RMB	⩽ 8	**0.92**	2.52	1.37
Proportion of loans to the top single borrower to net capital		⩽ 10	**10.21**	4.37	9.11
Proportion of loans to the top 10 borrowers to net capital			**56.43**	31.07	64.84

4. Capital Composition and Alterations

Unit: Million RMB

Item	2009 EoP	2008 EoP	2007 EoP
Net capital	**34,284**	32,074	15,410
Including: Core capital	**21,486**	18,392	15,427
Supplementary capital	**14,706**	13,690	0
Deductions	**(1,908)**	(8)	(17)
Net balance of risk-weighted assets	**381,904**	275,812	215,841
Capital adequacy ratio (%)	**8.98**	11.63	7.14
Core capital adequacy ratio (%)	**5.62**	6.67	7.15

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5. Changes in Shareholders' Equity

Unit: 1,000 RMB

Item	2009 EoP	Increase for the reported period	Decrease for the reported period	2008 EoP
Share capital	**11,978,844**	570,421		11,408,423
Capital Reserve	**694,524**	91,747	(605,727)	1,208,504
Statutory general reserve	**5,171,159**	938,159		4,233,000
Surplus reserve	**885,281**	338,713		546,568
Retained earnings	**3,498,911**	3,387,131	(2,125,659)	2,237,439
Foreign currency translation reserve	**(38,688)**		(6,469)	(32,219)
Total shareholders' equity	**22,190,031**	5,326,171	(2,737,855)	19,601,715

Notes: Major reasons for changes in Shareholders' Equity are:

1. According to the Proposal on 2008 Profit Distribution Plan for GDB reviewed and approved by 2008 Annual General Meeting of Shareholders of GDB, on 3rd August 2009, based on the total 11.408 billion shares, cash dividend of RMB 0.244 (tax included) was paid for every 10 shares to all registered shareholders, and share dividend of 0.5 share dividend was paid for every 10 shares to all registered shareholders. The total shares of the Bank increased from 11.408 billion to 11.979 billion accordingly.

2. Capital reserve refers to the alteration reserve of fair value of financial assets available for sale.

3. The Bank accrued 10% of net profit of current year as statutory surplus reserve.

4. The Bank accrued 1% of aggregate amount of risk-bearing assets, before allowances for impairment losses, at 31 December 2009, as statutory general reserve.

Shareholding's Change and Shareholders' Profile

1. Changes in Shareholding

According to the Proposal on 2008 Profit Distribution Plan for GDB reviewed and approved by 2008 Annual General Meeting of Shareholders of GDB on 12th June 2009, and Implementation Measures of 2008 Profit Distribution of Guangdong Development Bank reviewed and approved by Board of Directors, on 3rd August 2009, share dividend of 0.5 share was paid for every 10 shares to all registered shareholders, the total share dividend of 570,421,130 shares was paid out. Accordingly, the total shares of the Bank increased from 11,408,422,597 to 11,978,843,727.

Unit: share

Types of shares	Before	Proportion	Add/ reduce	After	Proportion
State-owned holdings	56,785,717	0.50%	2,373,491	59,159,208	0.49%
State-owned Legal Person holdings	8,139,505,807	71.35%	397,872,379	8,537,378,186	71.27%
Foreign Investors holdings	2,822,443,750	24.74%	141,122,188	2,963,565,938	24.74%
Individual holdings	1,215,249	0.01%	(250,179)	965,070	0.01%
Other domestic holdings	388,472,074	3.40%	29,303,251	417,775,325	3.49%
Total	11,408,422,597	100.00%	570,421,130	11,978,843,727	100.00%

2. Number of Shareholders and Shareholding

By the end of reporting period, the Bank has a total of 631 shareholders, holding 11,978,843,727 shares of the Bank.

3. Profile of Top 10 Shareholders

Unit: share

Name of shareholder	Proportion	Number of Shares
Citigroup Inc.	20.000%	2,395,768,745
China Life Insurance Co., Ltd.	20.000%	2,395,768,745
State Grid Corporation of China	20.000%	2,395,768,745
CITIC Trust Co., Ltd.	20.000%	2,395,768,745
IBM Credit LLC.	4.740%	567,797,193
Guangdong Finance Investment (Holding) Corporation Limited	2.043%	244,742,253
Lianda Group Co., Ltd.	1.478%	177,091,050
Shanghai Shenhua Holdings Co., Ltd.	1.452%	173,897,024
Jiangsu Suzhou Iron & Steel Group Co., Ltd.	1.414%	169,334,128
Bank of China Co., Ltd.	0.852%	102,068,857
Total	91.979%	11,018,005,485

Notes: There are no hypothecated, sequestrated or frozen shares for single shareholder holding over 5% of the Bank's Shares.

4. Introduction of Shareholders Holding over 5% of the Bank's Shares

(1) Citigroup Inc.

Citi, the leading global financial services company, has approximately 200 million customer accounts and does business in more than 140 countries. Through its two operating units, Citicorp and Citi Holdings, Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services and wealth management. Additional information may be found at www.citigroup.com or www.citi.com.

(2) China Life Insurance Co., Ltd.

China Life Insurance Co., Ltd. is a life insurance company established in Beijing, China on 30 June, 2003 according to the Company Law of the People's Republic of China. The Company was successfully listed on the New York Stock Exchange, the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 17 and 18 December 2003, and 9 January 2007, respectively. The Company's registered capital is RMB 28,264,705,000. The Company is the largest life insurance company in China's ("China" refers to the People's Republic of China, excluding the Hong Kong Special Administrative Region, Macau Special Administrative Region, and Taiwan region) insurance market. Its distribution network, comprising exclusive agents (Note: include a small number of exclusive agents who have not yet obtained the valid agency qualification), direct sales representatives, and dedicated and non-dedicated agencies, is the most extensive one in China. The Company is one of the largest institutional investors in China, and through its controlling shareholding in China Life Insurance Asset Management Co., Ltd., the Company is the largest insurance asset management company in China. The Company also has controlling shareholding in China Life Pension Company Limited. Products and services of the Company include individual life insurance, group life insurance, accident and health insurance. The Company is China's leading life insurance company, a leading provider of annuity products and life insurance for both individuals and groups, and a leading provider of accident and health insurance in China.

(3) State Grid Corporation of China

State Grid Corporation of China (SGCC) was founded on Dec. 29th, 2002 as a pilot state-owned corporation by the State Council to carry out state-authorized investment. As a backbone state-owned enterprise that may affect national energy safety and economic lifelines, SGCC's core business is to build and operate power grids and provide secure and reliable power supply for the development of the society. With a registered capital of RMB 200 billion, SGCC's service areas cover 26 provinces, autonomous regions and municipalities. SGCC carries out the president responsibility system with the president as the legal corporate representative of SGCC.

(4) CITIC Trust Co., Ltd.

CITIC Trust Co., Ltd. (abbreviated as the Company hereunder) is a national financial institution under direct regulation of the China Banking Regulatory Commission. Its predecessor CITIC Development Co., Ltd. was a wholly-owned subsidiary of the CITIC Group and set up on March 5, 1988. In 2002, the Company completed its restructuring and changed its name to CITIC Trust and Investment Co., Ltd. before adopting its current name in 2007. The Company's registered capital was expanded in 2006 to reach RMB 1.2 billion (including the value converted from 23 million US dollars). The two shareholders are China CITIC Group and CITIC East China (Group) Co., Ltd. respectively.

5. Connected Transactions

The Bank abides by and implements the Governing Rules for Connected Transactions between Commercial Banks and Internal Parties/Shareholders promulgated by CBRC and the Governing Rules for Connected Transactions of Guangdong Development Bank Co., Ltd.. The Bank follows the following principles when conducting connected transactions: (i) Abide by relevant laws, regulations, provisions, national uniform accounting policies and banking regulatory rules; (ii) Keep in conformity to the principles of honesty, creditworthiness and fairness; (iii) Keep to the commercial principles and proceed the connected transactions with terms not superior to those for non-connected parties.

The connected parties of the Bank refer to: the Bank's shareholders with 5% or above shares and their controlling shareholders; legal representatives, natural persons or other organizations with direct, indirect, co-control or capable of casting significant influence over the Bank's shareholders with 5% or above shares; the Bank's Directors, Senior Managers and other parties and their next-of-kin with the power to decide or participate in the Bank's credit lending and asset transfer; legal representatives or other organizations with direct, indirect, co-control over or capable of casting significant influence over the Bank's Directors, Senior Managers and other parties and their next-of-kin with the power to decide or participate in the Bank's credit lending and asset transfer. The Bank has no controlling shareholder. Shareholders who hold 5% and more than 5% shares include: Citigroup Inc., China Life Insurance Co., Ltd., State Grid Corporate of China and CITIC Trust Co., Ltd., each of whom holds 20% of the Bank's shares. Up to the end of the reported period, major connected transactions of the Bank include: subscription of the 2009 Tranche II Corporate Bond RMB 1.6 billion offered by State Grid Corporate of China (09 State Grid Bond 03), the maturity was 7 years, coupon rate was 4.8%, value date was December 24, 2009; The balance of FI accounts of the Bank opened in its connected party Citibank converted into Renminbi was RMB 438 million; According to Technical Cooperation and Assistance Agreement signed between the Bank and Citigroup INC., the Bank pre-withdrew technology assistance fee RMB 13 million within the reporting period.

At the end of the reported period, the Bank has no NPL balance in connected transactions.

Directors, Supervisors, Senior Managers and Employees

1. Directors, Supervisors and Senior Managers

(1) Basic Information (Chinese names listed according to strokes of family name; English according to alphabetical order)

Name	Title	Gender	Age	Appointment Date
Wan Feng	Director	Male	51	2009/03/17
Wang Fenghua	Director	Male	56	2006/12/18
Liu Jiade	Director	Male	46	2006/12/18
Li Zimin	Director	Male	38	2007/06/26
Chan Tai Loi	Independent Director	Male	50	2006/12/18
Lin Yixiang	Independent Director	Male	45	2006/12/18
Lin Jianjun	Director	Male	37	2008/04/22
Zheng Yong	Executive Director, Deputy President	Male	47	2009/12/01
Gai Yongguang	Director	Male	49	2006/12/18
Zhang Shengman	Director	Male	52	2007/09/20
Dong Jianyue	Chairman of the Board, Party Secretary of the CPC Committee of the Bank	Male	48	2009/06/22
Pu Jian	Director	Male	49	2006/12/18
Martin Wong	Director	Male	46	2008/09/05
Michael Zink	Executive Director, President	Male	51	2006/12/18
Phee Boon Kang	Independent Director	Male	58	2007/09/20
R. Daniel Massey	Executive Director, Deputy President, Chief Risk Officer	Male	67	2006/12/18
Raymond Lim	Executive Director, Deputy President	Male	60	2006/12/18
Ma Xiangdong	Employee Representative Supervisor	Male	50	2009/02/18
Deng Jianhua	Shareholder Representative Supervisor	Male	48	2007/06/26
Wang Jianmin	Shareholder Representative Supervisor	Male	40	2007/06/26
Li Jinsheng	Chairman of the Board of Supervisors, Employee Representative Supervisor	Male	53	2009/02/18
Hong Wenjian	Employee Representative Supervisor	Male	39	2009/02/18
Liang Jianhua	Employee Representative Supervisor	Male	57	2009/02/18
Tan Jinsong	External Supervisor	Male	44	2007/06/26
Zhai Meiqing	Shareholder Representative Supervisor	Female	45	2007/06/26
Edward Chou	Deputy President, Chief Financial Officer	Male	44	2006/12/18
Jin Haiteng	Deputy President	Male	58	2006/12/18
Zheng Lianming	Deputy President	Male	49	2007/01/30
Zheng Xiaolong	Secretary to Board of Directors	Male	46	2006/12/18

(2) Main Working Experience and Incumbency in the Shareholding Companies or Other Organizations of Directors, Supervisors and Senior Managers

Main Working Experience

Wan Feng

Director of the Bank.

Mr. Wan is Executive Director and President of China Life Insurance Company Ltd., Deputy President of China Life Insurance (Group) Company, Director of China Life Pension Company Ltd., Director of China Life Property and Casualty Insurance Company Ltd., Director of China Life Asset Management Company Ltd..

Ph.D in Economics, MBA, Senior Economist. He has served as Deputy General Manager of PICC Jilin Municipal Branch Company, Deputy General Manager of Life Insurance Division of PICC Jilin Provincial Company, Assistant to General Manager of China Life Hong Kong Branch Company, Senior Deputy General Manager of Taiping Life Insurance Co., Ltd. Hong Kong Branch, General Manager of China Life Shenzhen Branch Company, Deputy General Manager of China Life and General Manager of Shenzhen Municipal Branch Company, Deputy President of China Life Insurance Company Ltd..

Wang Fenghua

Director of the Bank.

Mr. Wang is Deputy Chief Economist and Head of Financial Asset Management Department of State Grid Corporation of China; General Manager of State Grid Asset Management Co. Ltd..

Master's degree, Senior Economist. He has served as Deputy Director and Director of De Zhou Electric Power Bureau; Head of Finance Department of Shandong Electric Power Bureau; General Manger of Yingda International Trust and Investment Co. Ltd.; Chief Economist of Shandong Electric Power Group; Chairman of Weishen Securities Co. Ltd.; Party Secretary of the CPC Committee and Deputy President of State Grid Power Development Co. Ltd.; General Manager, Chairman of the Board and Party Secretary of the CPC Committee of China Power Finance Co., Ltd..

Liu Jiade

Director of the Bank.

Mr. Liu is Deputy President of China Life Insurance Company Limited, Director of China Life Insurance Asset Management Company Limited, and Director of China Life Franklin Asset Management Company.

Bachelor's degree. Mr. Liu had served as Deputy Division Chief and Division Chief in the Commercial Finance Bureau of Ministry of Finance, Deputy County Chief of the People's Government of Guan Tao County in Hebei Province, the Division Chief in the Treasury Bond Finance Bureau of the Ministry of Finance from 1998 to 2000, Deputy Director of the Finance Bureau of the Ministry of Finance from 2000 to 2003. During his tenure at the Ministry of Finance, Mr. Liu gained extensive experience in the administration of assets, finance and taxation of insurance companies, banks, trust companies and securities institutions.

Main Working Experience

Li Zimin

Director of the Bank.

Mr. Li is Chief Operating Officer and General Manager of Investment Banking Department I of CITIC Trust Co., Ltd., at the same time, he is Director of Western Mining Group Co., Ltd., Director of Maoming Petro-Chemical ShiHua Co., Ltd., Director of ZhongYinXin Investment Co., Ltd., Director of FangChengGang Municipal Xinrun Petro-Chemical Co., Ltd., Director of Jiangsu Baize Investment Holding Co., Ltd..

MBA and Senior Economist. He has served as project manager of Assets Preservation Dept. and Investment Management Dept. of CITIC Industrial Trust Investment Co., Ltd.; Deputy General Manager of Finance Dept. of Zhongxing Shenyang Commercial Building (Group) Company Limited; Director and Deputy General Manager of Beijing Techgreen Company Limited; Senior Manager of Enterprise Annuity Dept., Head of Comprehensive Financial Service Group, and Company Expert of CITIC Trust and Investment Co., Ltd..

Chan Tai Loi

Independent Director of the Bank.

Bachelor of Business Administration. He has served as stockbroker of Nomura Securities; Assistant Vice President of Citibank; General Manager of Franklin And Taylor Asset Management Limited; Sales Director of Heng Feng Securities Limited; Chairman of the Board of Directors of Premium Holdings P/L; General Manager in Corporate Finance Department of Peregrine Securities (Taiwan); Chairman of the Board of Directors of Premium Group P/L; Senior Vice President of Asia Financial Securities; Director and Head of Corporate Finance and Equity Capital Market of CU Securities and CU Capital (Asia), COO of Shang Hua Holdings Limited.

Lin Yixiang

Independent Director of the Bank.

Mr. Lin is Chairman of the Board of Directors and General Manager of Tian Xiang Investment Consultant Company; Deputy President of the Securities Association of China, Director of the Securities Analyst committee of the Securities Association of China; Chairman of the First Index Specialist Committee of Shenzhen Securities Exchange and Shenzhen Securities Information Co., Ltd..

Ph.D in Economics. He has served as a Stock Investment Analyst at equity department of Caisse des Depots et Consignations in France; Consultant of Securities Law Draft Unit; Senior Specialist of CSRC; Deputy Director of Information Research Department; Program Leader of the Securities Trading Monitoring System; Deputy President of China Securities Company Limited; Consultant of Investment Fund Law Draft Unit; Securities Law revision consultant; Listed Companies M&A Management Rule amendment specialist.

Main Working Experience

Lin Jianjun

Director of the Bank.

Mr. Lin is Section Chief of Operation Section of Corporate Finance Dept. of State Grid Corporation of China.

Master of Finance. Mr. Lin has served as Manager Assistant of Investment Banking Dept. of Securities HO of China Power Trust & Investment Co., Ltd.; Deputy Manager of Corporate Financing Dept., Institution Management Dept., Treasury Planning Dept., Director of General Manager Office, Commercial Banks Dept. and Credit Management Dept. of China Power Finance Co., Ltd.; member of CPC Committee and Senior Deputy General Manager of Eastern China Branch of China Power Finance Co., Ltd..

Zheng Yong

Executive Director, Deputy President of the Bank.

LL.M. degree. Mr. Zheng has served as Division Chief of the Ministry of Justice of China; an attorney-at-law with Beijing L&A Law Firm, the China Law Office (Hong Kong) as well as Beijing De Heng Law Firm; Deputy General Manager of Legal Affairs Department, Company Secretary, General Manager of Legal and Compliance Department of China Life Insurance Co., Ltd.. He was a visiting fellow at both Harvard Law School and J.F. Kennedy School of Government in the US from August 1996 to October 1997. He is an arbitrator of China International Economic and Trade Arbitration Commission.

Gai Yongguang

Director of the Bank.

Mr. Gai is Chairman of the Board and Party Secretary of the CPC Committee of Ying Da International Trust Co., Ltd..

Master's degree, Senior Engineer. He has served as Program Manager, Deputy Director of the Machinery Office, Assistant of Institute Head, Director of Multi-operation Office, Deputy Institute Head and CPC Committee Commissioner in Shandong Electric Power Research Institute; Deputy President of Shandong Electric Power Science Institute; Deputy General Manager of Shandong Electric Power Materials Company; General Manager of Shandong Electric Power International Trade Company; Deputy Secretary and Secretary of the CPC Committee of Shandong Electric Power Science Institute; Deputy President of Shandong Electric Power College; Deputy President of Shandong Electric Power Institute; Deputy General Manager, Deputy Chairman of the Board, General Manager, Chairman of the Board and Party Secretary of the CPC Committee of Ying Da International Trust Co., Ltd..

Main Working Experience

Zhang Shengman

Director of the Bank.

Mr. Zhang is Chairman of Citigroup (Asia Pacific), member of Citi Management Committee, Independent Director of Fosun International.

MPA. He has served as Division Director and Deputy Director-General of Ministry of Finance of PRC; China Executive Director, Deputy President and Secretary General, Senior Deputy President, Duty Deputy President of World Bank; Chairman of Operation Committee, Crisis Management Committee, Sanction Committee and Corporate Fraud and Corruption Policy Committee of World Bank.

Dong Jianyue

Chairman of the Board and Party Secretary of the CPC Committee of the Bank.

Bachelor's degree, Senior Engineer. He has served in Ministry of Chemical Industry of the People's Republic of China, successively taking posts of Deputy Division Head of Facilities and Power Division in Department of Production General Affair, Division Head of Facilities and Energy Division in Department of Production Coordination, Deputy Department Head of Department of Production Coordination, and he took post in Wuxi City Government as a Mayor assistant; worked successively as Deputy General Manager of Credit Business Department, Corporation Business Department, General Manager of Asset Preservation Department at Bank of China (BOC) Head Office, also took the position as Secretary-general of Asset Disposal Committee of BOC Head Office, Member of Risk Management Committee and Risk Control Committee of BOC Hong Kong, the Chairman of the Board of Zhonggang (Cayman) Company, Director of Bank of China Group Investment Company; worked as Branch President and Secretary of the Party Committee of BOC Liaoning Provincial Branch; took the position as Member of Executive Committee of Bank of China Group, Branch President and Secretary of the Party Committee of BOC Beijing Branch.

Pu Jian

Director of the Bank.

Mr. Pu is Managing Director and Chairman of the Executive Committee of CITIC Trust Co., Ltd.; Director of China CITIC Group; Director of TaiKang Life Insurance; Director of Allianz China Life Insurance.

MBA, Senior Economist. He served as Director and Head of Manufacture Department, General Manager's Assistant, and General Manager in Jiangsu Province Suntory Food Co., Ltd.; worked in Light Industry Department of Citic-Sociate Trust Investment Company; Deputy Manager of Investment Banking and Assistant Manager of Citic Securities Limited; General Manager and Secretary of Communist Party Committee (CPC) at Citic Securities, Shanghai Office; Deputy General Manager and Manager of Research Department at Citic Securities Limited; Deputy-Chairman of Board of Directors and Secretary of CPC at China Sea Helicopter Controlling Company; General Manager and Secretary of CPC at Citic Sea Helicopter Co., Ltd..

Main Working Experience

Director of the Bank.
Juris Doctor. Mr. Wong has served as Citigroup's Chief Compliance Officer, the General Counsel for Citigroup Global Consumer Group, Chief Administrative & Chief Legal Officer for Citi Asia Pacific Region based in Hong Kong.

Martin Wong

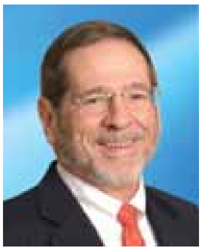
Executive Director, President of the Bank.
MBA, Chemical Engineer. During a career of more than 20 years in international banking, Mr. Zink has held senior positions in corporate & investment banking and in executive management around the world. During 18 years in Citigroup he worked in New York, Africa, Russia, Australia, Indonesia, and Korea. In December 2006 he moved to the People's Republic of China to join the Guangdong Development Bank. He holds a Bachelor of Science degree with Honors from Case Western Reserve University in the USA. He also holds an MBA degree from the Kellogg Graduate School of Management at Northwestern University in the USA. Mr. Zink has been married for 23 years and has four children.

Michael Zink

Independent Director of the Bank.
Mr. Kang is Founder & President of Boon Associates L.L.C.; Chairman of the Board, Jane Goodall Institute Global Secretariat; Trustee, Beloit College, Wisconsin.
Master of Science in Management & Editor of MIT Sloan Management Review. Mr. Kang served as Senior Vice President & Area Manager for Taiwan and the Philippines in American Express where he held various positions including Chairman/CEO of American Express International (Taiwan) Inc., and concurrently General Manager of American Express Bank Ltd., Taiwan Branch. Prior to that he was Senior Vice President & the start-up Retail Country Manager in Bank of America Taiwan. Until 1995, Mr. Kang had worked for Citicorp/Citibank in New York, Kuala Lumpur, Singapore, Manila, Tokyo and Taipei, starting in corporate and merchant banking operation management, followed by 15 years of retail banking roles at country business manager level in 5 Asian countries, including pioneering roles in Japan, Indonesia and Malaysia.

Phee Boon Kang

Main Working Experience



R. Daniel Massey

Executive Director, Deputy President, Chief Risk Officer of the Bank.

Bachelor of Arts in Political Science. Mr. Massey was Managing Director for Citigroup Corporate and Investment Bank in New York; Managing Director of Citigroup London; Chief Credit Officer for Citigroup Corporate and Investment Bank Asia Pacific based in Hong Kong; Executive Director of Credit Risk Management of Citibank Mexico, S.A.

Raymond Lim

Executive Director, Deputy President of the Bank.

Bachelor of Business Administration. Mr. Lim was the Vice President and Regional Business Director for Citibank China Consumer Banking. He has served as Chief Executive Officer (CEO) for the Global Consumer Bank of Citibank A.S Turkey; Director of Channel Management for Citibank Europe, Middle East and Africa region; CEO for Citibank Poland Consumer Banking; CEO for Citibank Philippines Consumer Banking; Director of Citiphone Banking in Singapore; and Director of Credit Cards for Citibank Singapore.

Ma Xiangdong

Employee Representative Supervisor of the Bank.

Mr. Ma is now working as member of the GDB Discipline Committee, member of Trade Union Committee and temporary person-in-charge of the Audit Department. M.A. in Money and Banking, Senior Engineer and Economist. Mr. Ma worked successively as Director of Department I of Guangzhou Light Industry Machinery Designing Research Institute of the Ministry of Light Industry, Party Committee member; temporary post of Deputy County Head and Party Committee member of People's Government of Gaozhou County of Guangdong Province; Deputy Director of Infrastructure Division of the Department of Light Industry of Guangdong; Deputy General Manager of Credit Department, General Manager of Domestic Business Department, General Manager of Business Department, General Manager of Audit Department, Secretary of Party Sub-Committee of Guangdong Development Bank.

Main Working Experience

Deng Jianhua

Shareholder Representative Supervisor of the Bank.

Mr. Deng is Deputy Manager of Guangdong Finance Asset Management Co.,Ltd., General Manager of Zhuhai Providence Real Estate Development Co., Ltd..

Auditor, Master of Economics. He used to serve as Chief Accountant of Jiang Xi Chemical Examination Factory, Manager of Industry and Communication Division of Audit Bureau, Jiang Xi Province, Deputy Manager of Audit Department of Guangdong Finance Trust and Investment Co., Ltd., General Manager of Audit Department of Guangdong Finance Investment (Holding) Co., Ltd.. General Manager of Guangdong Finance Investment Company Limited, Director of Guangdong Fenghua Advanced Technology (Holding) Co., Ltd..

Wang Jianmin

Shareholder Representative Supervisor of the Bank.

Mr. Wang is Director and President of Zhejiang Wojin Investment and Management Co., Ltd..

PhD of Management Science & Engineer. He has served as Deputy General Manager, General Manager of Investment & Development Dept. of Zhejiang Zhongda Group Co., Ltd., Deputy General Manager, Chairman of the Board of Directors of Zhejiang Zhongda Group Investment Co., Ltd., Supervisor, Director and President of Zhejiang Zhongda Group Co., Ltd., Deputy Chairman of Zhejiang Zhongda Futures & Broker Co., Ltd. and so on.

Li Jinsheng

Chairman of the Board of Supervisors, Employee Representative Supervisor of the Bank.

Mr. Li is now working as member of the Party Committee of Guangdong Development Bank.

Ph.D in Money and Banking of Southwestern University of Finance and Economics, Senior Economist. Mr. Li worked successively as cadre of the Commerce Division of Finance Department of Heilongjiang Province; cadre of Finance Office, Office III of General Office and Governor's Office of Heilongjiang Province; Deputy Director of General Office of Bank of China Harbin Branch (provincial branch); Director of General Office of Guangdong Development Bank, General Manager of Audit Department, General Manager of Treasury Department; Deputy Director of Working Group of Preparation for the Incorporation of Guangzhou Branch of Guangdong Development Bank and Deputy Branch President (in charge of overall administration), Branch President and Secretary of Party Committee; Chief Auditor and member of Party Committee of Guangdong Development Bank.

Main Working Experience

Hong Wenjian

Employee Representative Supervisor of the Bank.

Mr. Hong is now working as Deputy Chairman of the Trade Union of Guangdong Development Bank and temporary person-in-charge of the Strategic Management Department.

B.A. in law, Economist. Mr. Hong took part in the works for the acquisition of Zhong Yin Trust & Investment Co., Ltd., custody of Enping Urban and Rural Credit Cooperatives and Reform and Restructuring of GDB, and worked as Deputy Manager of Asset Management Department, Manager and Deputy General Manager of Planning and Management Department of Guangdong Development Bank.

Liang Jianhua

Employee Representative Supervisor of the Bank.

Mr. Liang is now working as member of the Trade Union Committee of Guangdong Development Bank, temporary person-in-charge of Operation Management Department.

Ph.D in Economics of Renmin University of China, associate research fellow. Mr. Liang worked successively as driver in Five-Seven Cadres School of Unit 024 of the People's Liberation Army, Squad Leader of Unit 51058 of the People's Liberation Army, Counsellor of Beijing School of Economics, associate researcher of Financial Research Institute of the People's Bank of China, manager of International Department of HO, Deputy President of Jiangmen Branch, one of the leaders of the working group of the acquisition of Zhong Yin Trust & Investment Co., Ltd., General Manager and Secretary of Party Sub-Committee of Treasury Department of Guangdong Development Bank.

Tan Jinsong

External Supervisor of the Bank.

Mr. Tan is the Party Secretary of the CPC Committee, Professor and Doctor Advisor of the School of Business of SUN YAT-SEN University; Commissioner of Education Committee of MPAcc, Executive Director of Chartered Accountants Association of Guangdong, Director of Guangdong Audit Association; Director of Internal Audit Association of China and Director of Budget and Accounting Research Association of Guangdong.

PhD. of Management (Accounting). He has served as Principal Director of Accounting Department in School of Business of SUN YAT-SEN University, Associate Dean of School of Business of SUN YAT-SEN University.

Main Working Experience

Zhai Meiqing

Shareholder Representative Supervisor of the Bank.

Ms. Zhai is Chairman of the Board and President of Heungkong Group Co., Ltd., Chairman of the Board of Directors of Kinhom Group Co., Ltd. and of Heungkong Southern Group Co., Ltd., Chairman of the Board of Directors of Heungkong Holding Co., Ltd. Member of the Standing Committee of All-China Women's Federation, Deputy President of China Association for the Promotion of Industry Development, Member of the Standing Committee of the Guangdong People's Political Consultative Conference, Deputy President of the Women's Federation of Guangdong Province, Member of the Standing Committee of the Shenzhen People's Political Consultative Conference, Chairman of Heungkong Social Assistance Fund, Deputy Chairman of Guangdong Association of Industry & Commerce, President of Guangdong Association of Women Entrepreneurs.

Master of Business Administration.

Edward Chou

Deputy President and Chief Financial Officer of the Bank.

Master of Finance. He has served as the Manager of Treasury Operations Department; Head of Financial Accounting & Reporting of Citibank, Taipei; Chief Financial Officer of Chase Manhattan Bank, Taipei; Chief Financial Officer of Citigroup, China; Representative of Citibank China Head Office and Chief of Staff of Citigroup, China.

Jin Haiteng

Deputy President of the Bank.

Senior Economist. As the educated youth, he once worked in the countryside of Yi Lan County in Heilongjiang Province to experience the life there. He has served as the Deputy Section Chief, Deputy General Director of Ningbo Commodities Price Bureau; Deputy Director, Deputy Secretary of CPC Committee of Ningbo Finance & Trade Office; Secretary of CPC Committee and Director General of Ningbo Commercial Bureau, County Head, Deputy Secretary of County Party Committee of Yinxian County, Deputy General Manager, Principal of oversea business in Zhong Yin Trust and Investment Corporation Ltd., President, Secretary of CPC Committee of Guangdong Development Bank Hangzhou Branch, Deputy President, member of Party Committee of Guangdong Development Bank Head Office.

Main Working Experience

Zheng Lianming

Deputy President of the Bank.

Graduated from School of Economics of Peking University, Master's degree, Senior Economist. He used to work for the State Development and Planning Commission as Deputy Director of Laws and Regulations Restructuring Bureau and Deputy Director of Policy Research Office (in charge of all-round work). After joining GDB, he has served as Deputy General Manager of HO General Office, Deputy General Manager and General Manager of HO International Business Department, President Assistant of Head Office and President of Foshan Branch, member of HO CPC Committee and Deputy President of the Bank.

Zheng Xiaolong

Secretary to Board of Directors of the Bank.

Master of Economics. He used to serve for Economy Management Faculty of Electronic Industry Cadre College as the Lecturer of Management Teaching Research Office and Deputy Head of Economy Management Faculty. He also held position in Everbright International Leasing Co., Ltd.. After joining GDB, he participated in Guangdong Development Bank Co., Ltd.'s acquisition of Zhong Yin Trust & Investment Co., Ltd.. He has served as the Deputy Branch President in charge of Huizhou Branch's operation; the General Manager of the Planning and Management Department of the Head Office, the Head of the Restructuring and Development Office and the Head of the Preparatory Working Group for Board Office.

(3) Shares held by Directors, Supervisors and Senior Managers

No Directors, Supervisors and Senior Managers of the Bank hold GDB shares.

(4) Annual Remuneration and Incentive Measures

In accordance with the Policy on Remuneration for Non-Executive Directors and Supervisors of Guangdong Development Bank Co.,Ltd. and by factoring in the workload, responsibilities and risk of Directors and Supervisors, the Bank disburses remuneration to Non-Executive Directors and Supervisors in principles of remuneration level and marketized remuneration structure.

The remuneration for Non-Executive Directors and Supervisors of the Bank consists of three parts, i.e. remuneration for their identity as member or head of a specialized committee and meeting expenses: (1) the annual remuneration for Directors is RMB 200,000 and that for Supervisors is RMB 100,000; (2) the annual remuneration for Audit Committee member is RMB 26,000, while that for members of other committees is RMB 24,000; the annual remuneration for Audit Committee Head is RMB 45,000, while that for Heads of other committees is RMB 34,000. Directors and Supervisors engaging in work of multiple specialized committees, their remuneration will be disbursed on the basis of the quantity of committees where they hold position; (3) the meeting expenses refer to allowance for Non-Executive Directors and Supervisors attending the Board of Directors and Board of Supervisors meetings, with the standard of RMB 3,000 per meeting.

The remuneration distribution plan for Senior Managers was put into effect after being reviewed by the Remuneration and Appraisal Committee under the Board of Directors and approved by the Board of Directors. As of December 31 2009, the pre-accrued 2009 remuneration for Directors, Supervisors and Senior Managers of the Bank was RMB 25 million.

The Bank has purchased liability insurance for Directors, Supervisors and Senior Managers. The Bank has not issued shares as incentive to Directors, Supervisors and Senior Managers.

(5) Changes of Directors, Supervisors and Senior Managers

On 18th February 2009, the Second Meeting of the Second Employee Congress elected Mr. Li Jinsheng, Mr. Hong Wenjian, Mr. Ma Xiangdong, Mr. Liang Jianhua as Employee Representative Supervisors of the Fourth Board of Supervisors of the Bank.

On 23rd February 2009, the First Meeting of the Fourth Board of Supervisors elected Mr. Li Jinsheng as the Chairman of the Fourth Board of Supervisors of the Bank.

On 24th February 2009, the First Extraordinary Meeting in 2009 of the 5th Board of Directors of the Bank approved the resignation of Mr. Gaurang Hattangdi as Deputy President of the Bank.

On 17th March 2009, Mr. Liu Lefei resigned from the position of the Bank's Director due to work transfer. The 8th Meeting of the 5th Board of Directors reviewed and approved the Proposal on the Resignation of Mr. Liu Lefei from the Fifth Board of Directors of Guangdong Development Bank Co., Ltd. and relevant Arrangement concerning the By-election of Director.The Board of Directors appointed Mr. Wan Feng as Director of the 5th Board of Directors.

On 17th April 2009, the 1st Extraordinary General Meeting in 2009 of Shareholders elected of the Bank Mr. Martin Wong and Mr. Wan Feng as Directors of the 5th Board of Directors.

On 22nd June 2009, the 3rd Extraordinary Meeting in 2009 of the 5th Board of Directors reviewed and approved the Proposal on Resignation of Mr. Li Ruohong from the Fifth Board of Directors of Guangdong Development Bank Co., Ltd. and relevant Arrangement concerning Filling Director Vacancy. As stipulated by Article 110 of the Articles of Association, the Board of Directors appointed Mr. Dong Jianyue as Director of the 5th Board of Directors to perform the duty accordingly, with the length of tenure equivalent to the Board of Directors. Mr. Dong is also entitled to be reappointed in the re-election of Board of Directors on the General Meeting of Shareholders. And the Meeting reviewed and passed the Proposal on the Election of Chairman of the 5th Board of Directors of Guangdong Development Bank Co, Ltd. to elect Mr. Dong Jianyue as Chairman of the 5th Board of Directors of the Bank.

On 1st December 2009, the 7th Extraordinary Meeting of the 5th Board of Directors reviewed the Proposal on Relevant Issues of China Life Insurance Co., Ltd. Nominating Mr. Zheng Yong as Director and Deputy President of GDB. Wang Xin was relieved of all posts in the Bank and Mr. Zheng Yong was approved to be Director and Deputy President of the Bank.

On 18th December 2009, the 2nd Extraordinary General Meeting of Shareholders decided to relieve Wang Xin from the position as Director and co-opt Mr. Zheng Yong as Director of the 5th Board of Directors of the Bank.

On 18th January 2010, the 9th Meeting of the 5th Board of Directors reviewed and approved the Proposal on the Resignation of Mr. Martin Wong from the 5th Board of Directors of Guangdong Development Bank Co., Ltd. and relevant Arrangement concerning the By-election of Director. Due to Mr. Martin Wong's resignation, the Board of Directors triggers a shortage of Directors and does not cause the quorum of the Board of Directors to fall below the statutory minimum. Pursuant to Article 110 and some other regulations of Articles of Association, the Board of Directors appointed Mr. Anthony P. Della Pietra Jr. as Director of the 5th Board of Directors to perform duty accordingly. The term of appointment will expire upon the convention of the next General Meeting of Shareholders and the matters in relation to the by-election of Director will be submitted for review.

2. Employees

As of the end of 2009, the Bank had 14,522 employees, increasing 331 persons compared with that of 2008. With respect to academic achievement, 7.95% of all employees have received PhD degree or master degree; 48.92% of all have bachelor's degree; 35.49% with associated degree from junior colleges, and 7.64% with other education background. In terms of age structure, 61.18% of all employees are less than 35 years old; 30.55% of all are between 36 years old and 45 years old; 8.27% of all are more than 46 years old. Total retired employees amounted to 469 persons.

Corporate Governance

In the reporting period, the Bank conscientiously studied regulatory instructions and comments, proactively implemented the concrete requirements on corporate governance and well executed the key work arrangements for improving corporate governance. As required by the regulator, pertinent to the Bank's status quo and by proactively learning from peer experience, the Bank enhanced the efforts in corporate governance with measures such as strengthening the building of the Board of Supervisors, deepening the HR and organizational structure reform, driving forward the vertical audit system reform, improving the transparency and promptness of information disclosure and continuously perfecting the information exchange mechanism, laying down solid groundwork for the further corporate governance reform in the future.

Firstly, the organizational structure of the Board of Supervisors was proactively perfected and relevant procedural rules were formulated and completed, promoting the regularized, systemized and scientific performance of supervisory functions and further improving the corporate governance capability and mechanism.

Secondly, the HR management reform was continuously deepened and the organizational structure and process reengineering project was segmented. On one hand, the General Planning for the Human Resources Reform was formulated to improve policies on areas such as cadre selection, talent cultivation, team building and remuneration distribution and put in place a people-oriented, scientific and regularized HR management system. On the other hand, the management system featuring clarified responsibility boundaries, scientific and efficient processes was established on the basis of the customer-centered service template to optimize business and management processes and upgrade the management efficiency and service capability in an all-round way.

Thirdly, the vertical audit system reform was actively pressed ahead to establish a bank-wide audit organizational system reporting to and led vertically by the Board of Directors, exerting the role of independent audit assessment, supervision and appraisal and stepping up the effects of internal control and corporate governance.

Fourthly, the laws, regulations and regulatory provisions on information disclosure were stringently fulfilled to ensure the promptness, authenticity and accuracy of the disclosure of the Annual Report. Information regarding corporate governance and the Annual Report was disclosed on the Bank's website to enhance the transparency and promptness of information disclosure. The relationship with investors was constantly improved and communication with rating agencies was strengthened to improve the social image and market reputation of the Bank.

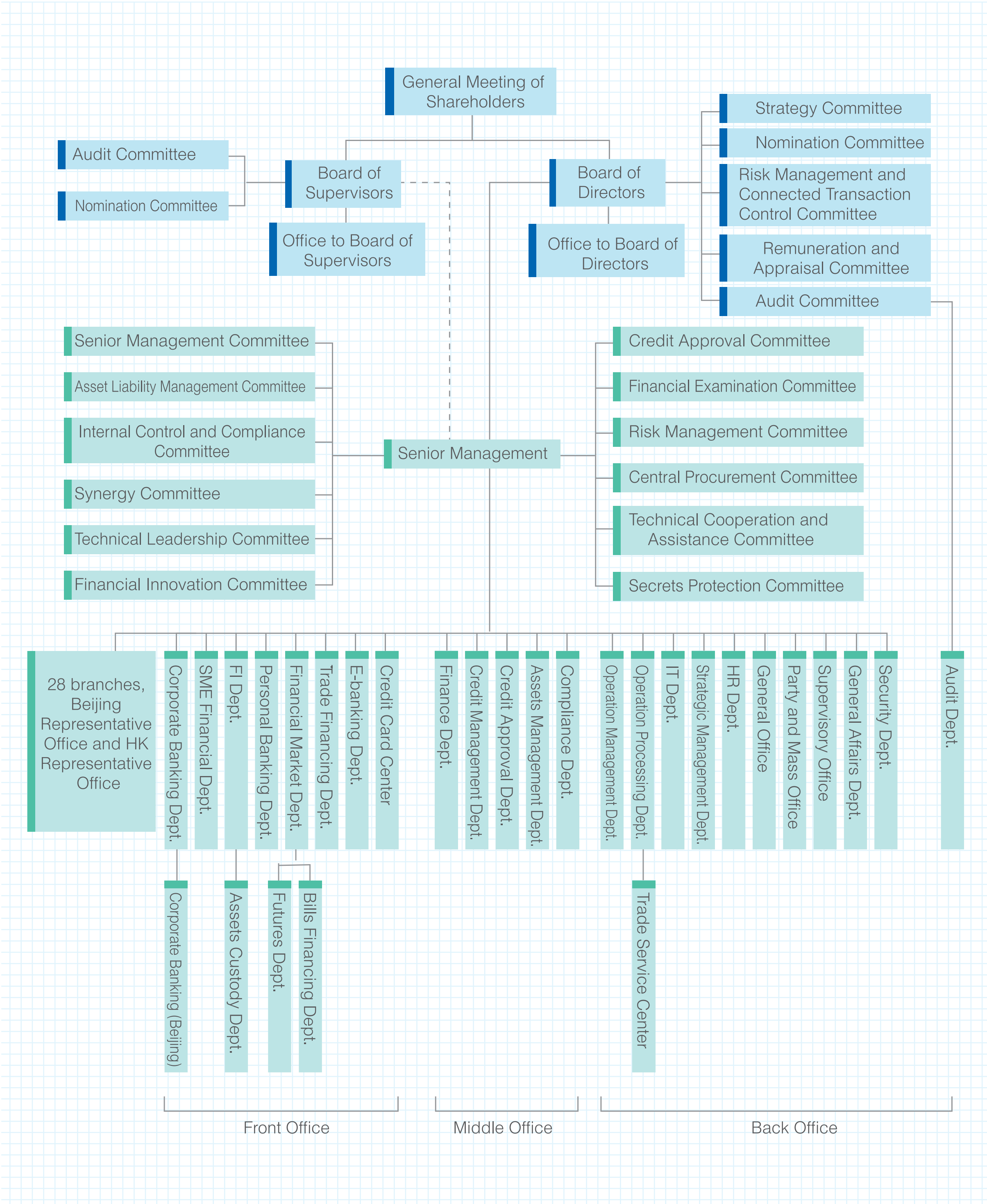
Fifthly, the mechanism of routine communication among Directors, Supervisors and Senior Management was perfected to improve the quality and efficiency of the decision-making by the Board of Directors and the Board of Supervisors. The Newsletter of Directors and Supervisors was compiled to consolidate communication between the Board of Directors, Board of Supervisors and Senior Management and facilitate the timely Directors and Supervisors' obtainment of information regarding the corporate governance, regulator development and material operation and management matters of the Bank.

Sixthly, some of the Directors were organized to participate in the corporate governance training for awareness further upgrade in due diligence and capability in duty performance, advancing the further improvement of corporate governance.

1. Organizational structure

The supreme organ of the Bank is the General Meeting of Shareholders. The Board of Directors (hereinafter as BoD or Board) serves as the enforcement organ of the General Meeting of shareholders, to which it shall be accountable; The Board of Supervisors (hereinafter as BoS) serves as the supervisory organ of the Bank and is accountable to the General Meeting. The Senior Management is subject to the leadership of the Board of Directors and engages in operational and management activities of the Bank by laws. According to requirements of corporate governance, unswerving efforts have been made for the establishment and improvement of the operational mechanism for scientific decision making, strong execution and effective supervision.

The Bank implements the single legal person system, with each branch institution as non-independent accounting unit. Branches carry out operational and management activities according to delegation by the Head Office and report to the Head Office.


General Meeting of Shareholders
Audit Committee
Nomination Committee
Board of Supervisors
Office to Board of Supervisors
Board of Directors
Office to Board of Directors
Strategy Committee
Nomination Committee
Risk Management and Connected Transaction Control Committee
Remuneration and Appraisal Committee
Audit Committee
Senior Management Committee
Asset Liability Management Committee
Internal Control and Compliance Committee
Synergy Committee
Technical Leadership Committee
Financial Innovation Committee
Senior Management
Credit Approval Committee
Financial Examination Committee
Risk Management Committee
Central Procurement Committee
Technical Cooperation and Assistance Committee
Secrets Protection Committee
28 branches, Beijing Representative Office and HK Representative Office
Corporate Banking Dept.
SME Financial Dept.
FI Dept.
Personal Banking Dept.
Financial Market Dept.
Trade Financing Dept.
E-banking Dept.
Credit Card Center
Finance Dept.
Credit Management Dept.
Credit Approval Dept.
Assets Management Dept.
Compliance Dept.
Operation Management Dept.
Operation Processing Dept.
IT Dept.
Strategic Management Dept.
HR Dept.
General Office
Party and Mass Office
Supervisory Office
General Affairs Dept.
Security Dept.
Audit Dept.
Corporate Banking (Beijing)
Assets Custody Dept.
Futures Dept.
Bills Financing Dept.
Trade Service Center
Front Office
Middle Office
Back Office

2. Board of Directors and Specialized Committees under Board of Directors

There are 17 members in the Board of Directors, including 3 Independent Directors, 4 Executive Directors. The number and composition of Board of Directors are in line with regulatory requirements and Articles of Association. The Board of Directors has set up five Specialized Committees under itself: Strategy Committee, Audit Committee, Risk Management and Connected Transaction Control Committee, Remuneration and Appraisal Committee, and Nomination Committee. More than half of members of Audit Committee, Risk Management and Connected Transaction Control Committee and Nomination Committee are Independent Directors and the heads of the said Committees are all Independent Directors.

In 2009, 16 meetings of Specialized Committees under the Board of Directors were convened, which have provided professional supports for the scientific decision-making of the Board and taken further steps to improve corporate governance of the Bank.

Strategy Committee

(1) Head: Chairman Dong Jianyue

(2) Members: Director Liu Jiade, Director Lin Jianjun, Director Zhang Shengman, Director Pu Jian, Director Michael Zink

(3) Main Responsibilities: To formulate the business objectives and long-term development strategies of the Bank and to supervise and review the implementation of the annual business plan and investment proposal.

Audit Committee

(1) Head: Independent Director Lin Yixiang

(2) Members: Independent Director Phee Boon Kang, Director Martin Wong

(3) Main Responsibilities: To review the Bank's accounting policies, financial conditions and procedures of financial reporting of the Bank; examine the risk and compliance of the Bank; be responsible for the annual audit of the Bank and shall submit a report for the consideration of the Board of Directors commenting on the truthfulness, completeness and accuracy of the audited financial report.

Risk Management and Connected Transaction Control Committee

(1) Head: Independent Director Phee Boon Kang

(2) Members: Director Wang Fenghua, Director Li Zimin, Independent Director Chan Tai Loi, Independent Director Lin Yixiang, Director R. Daniel Massey

(3) Main Responsibilities: To supervise the risk control situation of the senior management in respect to credit, market, operations, etc; regularly evaluate the risks, risk management, risk endurance capacity, and level of risk endurance of the Bank; review the internal control system of the Bank and propose opinions for improvements regarding the risk management and internal control and evaluate the working procedures and effectiveness of the internal audit department; review the financial information of the Bank and its disclosure; check and examine the connected transactions of the Bank; manage the connected transactions of the Bank and control the risks of connected transactions.

Remuneration and Appraisal Committee

(1) Head: Director Wang Fenghua

(2) Members: Director Wan Feng, Director Gai Yongguang, Director Zhang Shengman, Director Pu Jian, Director Martin Wong

(3) Main Responsibilities: To study, evaluate and make suggestions to the standards and guidelines of the assessment system for Directors and Senior Management; formulate remuneration proposals for Directors, Supervisors, President and other members of Senior Management; make suggestions to the Board of Directors regarding the same; and supervise the implementation of the proposals.

Nomination Committee

(1) Head: Independent Director Chan Tai Loi

(2) Members: Independent Director Lin Yixiang and Director Raymond Lim

(3) Main Responsibilities: To formulate the standards and procedures for the appointment of Directors and members of Senior Management; conduct preliminary examination on the qualification and terms of employment of the candidates for Directors and members of Senior Management and make recommendations to the Board of Directors; search extensively for candidates qualified to act as Directors and members of Senior Management.

3. Board of Supervisors and Specialized Committees under Board of Supervisors

The 4th Board of Supervisors consists of 8 Supervisors, including 4 Employee Representative Supervisors, 3 Shareholder Representative Supervisors and 1 External Supervisor. In 2009, the Board of Supervisors actively perfected its organizational structure, formulated and completed relevant procedural rules and earnestly performed its supervisory duties in line with relevant state laws and regulations and stipulations in the Articles of Association, striving unswervingly for the formulation of a corporate governance mechanism featuring scientific decision-making, effective enforcement and supervision and the all-round upgrade of operation and management capability. During the reporting period, the Board of Supervisors altogether convened 5 meetings, reviewed 11 proposals and held discussion on 3 matters.

The Board of Supervisors established two specialized committees, i.e. the Nomination Committee and Audit Committee. During the reporting period, the Audit Committee convened one meeting and reviewed one proposal.

Nomination Committee consists of 3 Supervisors, i.e., External Supervisor Tan Jingsong, Supervisor Deng Jianhua and Supervisor Hong Wenjian, with External Supervisor Tan Jinsong heading the committee. The key responsibilities of Nomination Committee are: to determine the selection procedures and criteria; conduct preliminary review on the qualification of the supervisor candidates and make recommendation to the Board of Supervisors on its scale and membership; nominate and recommend candidates for specialized committees to the Board of Supervisors; seek for qualified supervisor candidate in a wide spectrum.

Audit Committee consists of 7 Supervisors and currently there are 6 members, i.e. External Supervisor Tan Jinsong, Supervisor Wang Jianmin, Supervisor Zhai Meiqing, Supervisor Li Jinsheng, Supervisor Ma Xiangdong and Supervisor Liang Jianhua. The key responsibilities of Audit Committee are: to draft the plan for supervision over duty performance of the Board of Directors and Senior Management; draft the plan for supervision over due diligence of Directors, Chairman of the Board and Senior Managers; draft the plan for exit audit on Directors and Senior Managers; draft the plan for assessment and supervision over the financial activities of the Bank; draft the plan for assessment and supervision over the operational decision-making, risk management and internal control of the Bank in line with needs; review the regular report of the Bank and the profit distribution plan compiled and drafted by the Board of Directors, and provide written review commentary to the Board of Supervisors.

Summary of General Meeting of Shareholders

1. Annual General Meeting of Shareholders

On 12 June 2009, 2008 Annual General Meeting of Shareholders was held in Guangzhou.

73 Shareholders and proxies, representing shares of ten billion one hundred and eighty three million (10.183 billion shares) accounting for 89.26% of total shares, attended the meeting.

The meeting deliberated each proposal and approved the following proposals by ballot: Proposal on the 2008 Annual Working Report of the Fifth Board of Directors of Guangdong Development Bank Co., Ltd., Proposal on the 2008 Annual Working Report of the Fourth Board of Supervisors of Guangdong Development Bank Co., Ltd., Proposal on the 2008 Final Financial Report of Guangdong Development Bank Co., Ltd., Proposal on 2008 Profit Distribution Plan of Guangdong Development Bank Co., Ltd., Proposal on the 2009 Financial Budget of Guangdong Development Bank Co., Ltd.. Relevant resolutions were reached at the meeting.

King & Wood Lawyer's Office provided on-site witness for and released legal opinions on the legality of the convening and procedures of the meeting, the qualification of the shareholders present, the voting procedures and other relevant issues.

2. Extraordinary General Meeting of Shareholders

On 17 April 2009, the First Extraordinary General Meeting of Shareholders in 2009 was held in Guangzhou.

57 Shareholders and proxies, representing ten billion five hundred and fifty four million shares (10.554 billion shares) accounting for 92.51% of total shares, attended the meeting.

The meeting deliberated each proposal and approved the following proposals by ballot: Proposal on Electing Mr. Martin Wong to the Fifth Board of Directors of GDB, Proposal on Electing Mr. Wan Feng to the Fifth Board of Directors of GDB, Proposal on 2009 Issuance Plan for Subordinated Bonds, Proposal on Connected Transaction of Underwriting of 2009 Debt Financing Instrument of SGCC. Relevant resolutions were reached at the meeting.

King & Wood Lawyer's Office provided on-site witness for and released legal opinions on the legality of the convening and procedures of the meeting, the qualification of the shareholders present, the voting procedures and other relevant issues.

On 18 December 2009, the Second Extraordinary General Meeting of Shareholders in 2009 was held in Guangzhou.

61 Shareholders and proxies, representing eleven billion one hundred and twenty three million shares (11.123 billion shares) accounting for 92.85% of total shares, attended the meeting.

The meeting deliberated each proposal and approved the following proposals by ballot: Proposal on the Post-ponement of the Election of the Sixth Board of Directors of GDB, Proposal on Changing Registered Capital and Revising Relevant Articles of GDB's AOA and Proposal on Co-opting Mr. Zheng Yong onto the Fifth Board of Directors of GDB. Relevant resolutions were reached at the meeting.

King & Wood Lawyer's Office provided on-site witness for and released legal opinions on the legality of the convening and procedures of the meeting, the qualification of the shareholders present, the voting procedures and other relevant issues.

In 2009, facing a highly volatile situation of domestic and overseas economy and finance, GDB underwent a rigorous test and kept a healthy and steady development in operational results. As of the end of 2009, total assets of the Bank grew to RMB 666.5 billion, liabilities reached RMB 644.3 billion, and shareholders' equity grew to RMB 22.2 billion, an increase of 22.1%, 22.4% and 13.2% respectively compared to last year. The Bank achieved profit before tax of RMB 5.01 billion in 2009, an increase of 62.5% on that of last year; on the basis of sufficient provision, achieved net profit of RMB 3.39 billion, an increase of 21.7% on that of last year. Average Return on Equity in 2009 was 16.21%. Loan provision coverage ratio was 156.1%, laying a solid foundation for the Bank to resist risks.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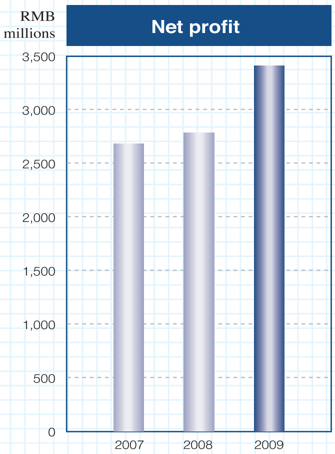
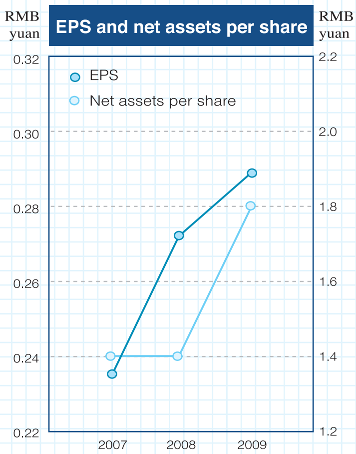
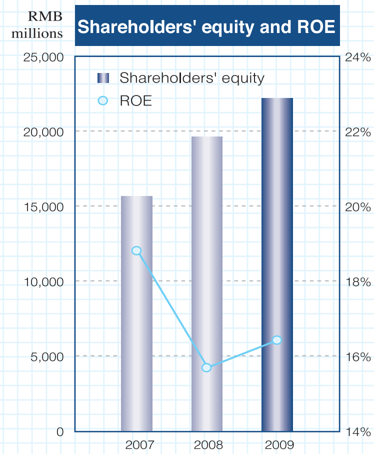
Report of the Board of Directors







Net profit

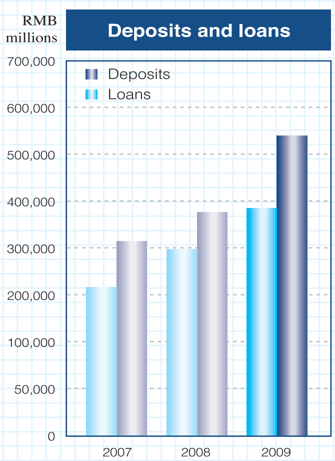
The Bank's net profit in 2009 was RMB3.39 billion, an increase of RMB0.603 billion on that of last year. Various businesses developed healthily, and efficiency of assets opeation was further improved.

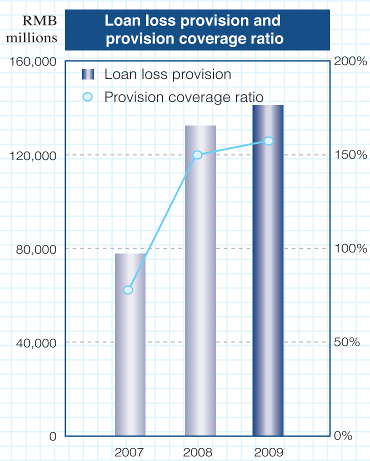
EPS and net assets per share

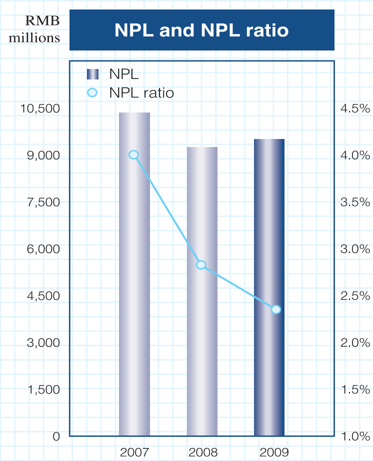
The Bank's EPS in 2009 was RMB 0.28 yuan, increased by 16.67% YoY; Net assets per share was RMB1.85 yuan, increased by 7.6% YoY.

Shareholders' equity and ROE

The Bank's Shareholders' equity in 2009 was RMB22.2 billion, increased by 13.2% YoY; ROE was 16.21%.







Deposits and loans

The Bank's balance of deposits in 2009 were RMB543.9 billion, balance of loans were RMB380.9 billion, increased by 34.4% and 22.2% YoY respectively.

Loan loss provision and provision coverage ratio

The Bank's Loan loss provision in 2009 was 14.24 billion, loan provision coverage ratio was 156.1%, increased by 5.5 percents YoY.

NPL and NPL ratio

The Bank's NPL in 2009 was RMB9.123 billion, NPL ratio was 2.4%, decreased by 0.45 percent YoY.

Management Discussion and Analysis

In the first half of 2009, the country strengthened the implementation of proactive fiscal policy and a moderately easy monetary policy. At the beginning of the year, stimulated by a series of policies such as the plan to adjust and reinvigorate 10 key industries, substantial government investment, and super-conventional release of monetary credit, the domestic economy shook of the influence of the financial crisis and began to show signs of recovery. We witnessed positive changes of enterprise benefit, private investment and social confidence. In the second half of 2009, along with the constant improvement of the macro-economy, the regulatory authorities promulgated a series of regulatory measures in an effort to rationally control loan growth, supervised the flow of credit funds, and reduce hidden risks caused by rapid release of loans in the first half of 2009.

Facing with complex changes in the macro-business environment, while adhering to a sound and prudential management style, the Bank actively implemented the requirements of the national macro-control policies and the monetary polices of the Central Bank and adjusted business strategies in a timely manner; in addition, it continued to strengthen risk management and internal control; proactively conducted research in a bid to develop a long-term and effective capital replenishment plan in anticipation of a rapid increase and development of business. By adjusting its assets-liabilities structure, the Bank achieved better profit and steady growth of business.

1. Review of the Bank's Operations in the Reported Period

(1) Overall Operation Performance

As of the end of 2009, total assets of the Bank grew to RMB 666.5 billion, liabilities reached RMB 644.3 billion, and shareholders' equity grew to RMB 22.2 billion, an increase of 22.1%, 22.4% and 13.2% respectively compared to last year. The Bank achieved profit before tax of RMB 5.01 billion in 2009, an increase of 62.5% on that of last year; achieved net profit of RMB 3.39 billion, an increase of 21.7% on that of last year. Average Return of Equity in 2009 was 16.21%, an increase of 0.41% on that of last year. NPL ratio was 2.4%, a decrease of 0.45% on that of last year. Loan provision coverage ratio was 156.1%, an increase of 5.5% on that of last year.

(2) Operation Review

More emphasis was placed on the research of the macro-economy and industry, and various effective measures being adopted in a timely manner.

Under the complex and changing economic and financial environment, the Bank actively conducted research into the trends of national macro-policies, vigorously implemented CBRC's principle of "Taking different approaches to different situations and encouraging the growth of some sectors while discouraging the expansion of others", appropriately adjusted business strategies and promoted the coordinated development of asset businesses. Faced with the pressure caused by the narrowing of interest spread, the Bank vigorously developed intermediary business and enforced the profitability by means of strengthening transfer pricing of internal assets, management of assets and liabilities etc. In addition, great efforts were made to optimize business types and structure, provide more support to SMEs, and strengthen the monitoring and analysis of the granting and purpose of loans, with the aim of ensuring that the credit funds flowed to the real economy.

Asset-liability management was enhanced so as to promote the coordinated development of businesses.
The Bank strengthened its business monitoring and analysis, and continuously conducted supervision and assessment on the allocation and liquidation conditions of assets and liabilities of the whole bank. The Bank made every effort to refine the daily supervision of operation conditions and the collection and analysis of relevant information as well as continuously improve the management and measurement model of assets and liabilities aiming to further improve risk management.

Risk management was upgraded for optimization of asset quality.
Adhering to management principles of prudence, innovation and flexibility, the Bank explored the authorized reform of the credit business, continuously strengthened the restructuring of credit procedures, realized the whole-process risk early warning management; promoted the approval mechanism reform, established regional approval centers and the authorized approver system; continuously improved and promoted the pressure test management mode, established special market risk management system, strengthened the application of credit risk measurement technology in customer access rating, enhanced the establishment of the risk management basic platform, reinforced the monitoring and verification of credit assets; reinforced post-loan management, adopted diversified measures to recover and dispose of bad assets; continuously improved the management structure of compliance risks, deepened compliance management functions and earnestly promoted internal control and operational risk management projects; During the promotion of vertical audit reform, based on the mode of "HO Audit Department + Regional Audit Center", the Bank has established an audit mechanism which is both accountable to BoD and under the leadership of BoD.

Expenditure management was strengthened in a bid to promote the construction of the accounting system.
The Bank standardized the management of fees, improved the utilization efficiency of expense resources; controlled the consumption expenditure, improved expenditure approval procedures and duties; established the phased implementation program for expenditure distribution projects, launched expenditure distribution projects; steadily improved the implementation of the transfer pricing system of internal funds, accelerated the procedures for research and initiation of relevant management accounting projects and upgraded the operation management level of the Bank.

Study work related to capital replenishment plan was carried out.

The Bank reinforced capital management and improved capital strength in order to decrease risk asset occupation, continuously improve operation profitability and keep increasing internal capital accumulation ability by adjusting asset structure and optimizing credit asset quality; as well as, to study capital replenishment feasibility and operability of additional shares and sub-bonds issuances and to actively promote IPO. IPO Leadership Group was set up to push forward IPO preparation and establish a long-term capital replenishment mechanism.

More effort was made to intensify outlet development and optimize outlet distribution.

The Bank has made a breakthrough in setting up its first new branch since 2003. Changsha Branch was opened in Oct. 2009 and the establishment of Tianjin Branch has already been approved by the regulatory authorities. Meanwhile, a breakthrough was made in the quantity of tier-two branches and cross-city sub-branches. Two tier-two branches (Suzhou Branch in Jiangsu Province, and Pingdingshan Branch in Henan Province), and three cross-city sub-branches (Anshan Sub-branch in Liaoning Province, Rui'an Sub-branch in Zhejiang Province and Huangshi Sub-branch in Hubei Province) received approval. Outlet distribution became more optimized and reasonable.

2. Financial Statement Analysis

(1) Income Statement Analysis

Profit after tax in 2009 was RMB 3.39 billion, an increase of RMB 0.603 billion on that of last year, with the main contribution to the increase coming from a healthy development of various businesses. The implementation of measures such as strengthening risk management, NPA collection, etc. in order to raise asset quality, combined with the fact that the provision coverage ratio, meeting relevant regulatory requirements, was increased slightly in 2009, resulted in the provision for asset impairment that need to be charged to P/L in 2009 being greatly reduced compared with that of last year, which made a further contribution to the increase in the Bank's profitability.

Key data of Income Statement are as follows:

Unit:1,000 RMB

Item	2009	2008
Operating income	**15,114,715**	17,710,991
Including: Net interest income	**13,097,726**	15,716,478
Net fee & commission income	**1,746,350**	1,571,936
Business taxes and surcharges	**1,279,897**	1,296,719
Operating and administrative expenses	**7,326,305**	6,530,295
Allowances for asset impairment	**1,465,120**	6,865,318
Other operating cost	**22,296**	41,503
Non-operating expense and income net	**(9,535)**	106,475
Profit before tax	**5,011,562**	3,083,631
Income tax expense	**1,624,431**	299,623
Net profit	**3,387,131**	2,784,008

(a) Structure of Operating Income and Operating Profit

Branches and outlets of the Bank were mainly established in domestic economically-advanced regions. The following table shows subsection indicators during the reported period based on geographical regions.

Unit:1,000 RMB

Region	Operating income	Operating profit	Total Assets
Yangtze River Delta	3,519,768	1,565,691	172,171,339
Pearl River Delta	4,548,643	2,730,194	215,132,447
Bohai Sea Rim Region	2,020,947	1,120,641	118,934,697
Central and Western Region	1,890,049	1,079,929	87,460,136
Head Office	3,085,268	(1,476,073)	279,667,131
Overseas	50,040	715	3,869,798

(b) Interest Income

Interest income of the Bank in 2009 decreased 17.77% compared with that of last year, the main reason was the decrease of interest income arising from loan and financial assets held under resale agreement, influenced by the effect of continuous interest rate cut in 2008 and full display in 2009. The following table shows the composition and percentage of interest income in 2008 and 2009.

Unit:1,000 RMB

Item	2009		2008	
	Amount	% of total	Amount	% of total
Loan interest income	**18,118,547**	**78.2**	20,987,035	74.5
Including: Corporate and personal loan interest income	**15,890,730**	**68.6**	17,313,387	61.4
Discounted bills interest income	**2,227,817**	**9.6**	3,673,648	13.1
Bond interest income	**2,757,912**	**11.9**	2,447,816	8.7
Interest income from deposits with Central Bank	**879,284**	**3.8**	1,015,202	3.6
Interest income from placements with FIs	**333,455**	**1.4**	596,773	2.1
Interest income from financial assets held under resale agreement	**944,311**	**4.1**	2,831,673	10.1
Interest income from deposits with FIs	**62,702**	**0.3**	41,504	0.1
Other interest income	**72,945**	**0.3**	257,588	0.9
Total	**23,169,156**	**100**	28,177,591	100

(c) Non-interest Income

Non-interest income of the Bank maintained steady growth in 2009, increasing by 1.13% compared with that of last year, mainly due to the growth of commission income and exchange gain. The following table shows main components of non-interest income in 2008 and 2009.

Unit:1,000 RMB

Item	2009	2008
Commission income	1,746,350	1,571,936
Investment gain	51,008	268,399
Gain from changes in fair value	(40,869)	39,178
Exchange gain	235,244	102,024
Other business income	25,256	12,976
Total	2,016,989	1,994,513

(d) Interest Expenses

Interest expenses of the Bank in 2009 decreased 19.18% compared with that of last year, the main reason was the decrease of deposit interest expenses and Interest expenses of financial assets sold under repurchase agreement, influenced by the effect of continuous interest rate cut in 2008 and full display in 2009. The following table shows the composition and percentage of interest expenses in 2008 and 2009.

Unit:1,000 RMB

Item	2009		2008	
	Amount	% of total	Amount	% of total
Deposit interest expenses	7,816,922	77.6	9,021,253	72.4
Bond interest expenses	304,444	3.1	105,163	0.8
Interest expenses of deposits from FIs	1,463,650	14.5	1,540,955	12.4
Interest expenses of placements from FIs	134,697	1.3	116,500	0.9
Interest expenses of financial assets sold under repurchase agreement	351,717	3.5	1,677,242	13.5
Total	10,071,430	100	12,461,113	100

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(e) Operating and administrative expenses

Operating and administrative expenses of the Bank in 2009 increased 12.19% compared with that of last year, cost earning ratio was 48.47%, increased 11.6 percentages compared with that of last year. The following table shows the composition and percentage of operating and administrative expenses in 2008 and 2009.

Unit:1,000 RMB

Item	2009		2008	
	Amount	% of total	Amount	% of total
Staff costs	**3,940,051**	**53.8**	3,438,374	52.7
Rental fee	**544,656**	**7.4**	475,812	7.3
Maintenance fee	**430,255**	**5.9**	378,138	5.8
Depreciation	**311,965**	**4.2**	260,641	3.9
Others	**2,099,378**	**28.7**	1,977,330	30.3
Total	**7,326,305**	**100**	6,530,295	100

Staff costs are the biggest component of operating and administrative expenses of the Bank, and in 2009 it increased 14.59% compared with the previous year, mainly due to the expansion of business and outlets, the growth of staff headcount, and a base increase in social security payment and housing funds. Rental fees in 2009 increased 14.47% compared with last year, mainly due to the increase of sub-branches and outlets and the increase of rental charges. Maintenance fees in 2009 increased 13.78% compared with last year, mainly due to the increase in maintenance costs for electronic equipment. Depreciation in 2009 increased 19.69% compared with last year, mainly due to the increase of depreciation of recent years' newly-purchased office space and electronic equipment. Other fees in 2009 increased 6.17% compared with last year, mainly due to the increase of general office and administrative expenses.

(f) Allowances for asset impairment

The expenditure of allowances for asset impairment in 2009 was RMB 1.465 billion, a decrease of 78.66% compared with last year, mainly due to the decrease of loan provision expenditure. This is a result of the large increase in the loan provision coverage ratio in 2008, which maintained a relatively steady growth in 2009. The following table shows the composition and percentage of expenditure of allowances for asset impairment in 2008 and 2009.

Unit:1,000 RMB

Item	2009		2008	
	Amount	% of the amount	Amount	% of the amount
Loan provision	**1,461,422**	**99.7**	6,678,277	97.3
Provision of repossessed assets	**7,012**	**0.5**	(13,065)	(0.2)
Others	**(3,314)**	**(0.2)**	200,106	2.9
Total	**1,465,120**	**100**	6,865,318	100

(2) Balance Sheet Analysis

(a) Assets

Total assets of the Bank at the end of 2009 were RMB 666.5 billion, an increase of RMB 120.5 billion on that of last year, mainly due to the growth of the loan portfolio and financial assets held under resale agreement.

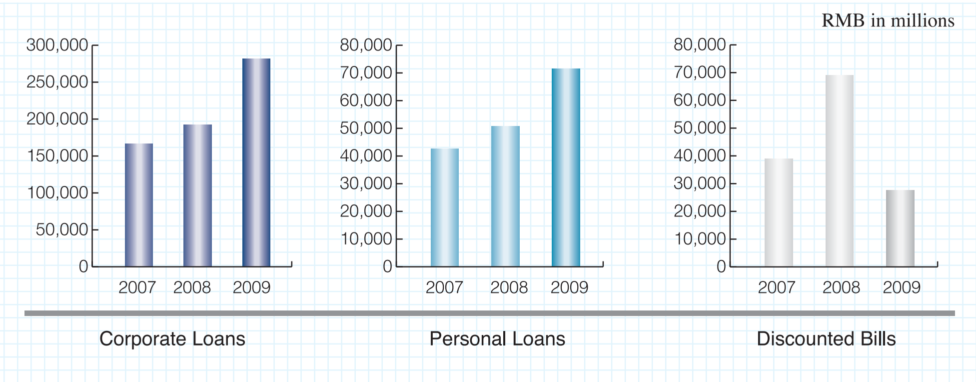
(i) Loans

Classified by types of loans at the end of the reported period

Unit: 1,000 RMB

Type	2009 EoP	2008 EoP
Corporate Loans	**281,790,948**	192,022,231
Personal Loans	**71,530,758**	50,714,131
Discounted Bills	**27,553,313**	68,962,144
Total	**380,875,019**	311,698,506

In recent years, the Bank has been continuously adjusting its loan structure, reducing the discounted bills of low return, increasing ordinary loans of high return. In the above table, compared to 2008 corporate loans increased by 46.75%, personal loans increased by 41.05%, and discounted bills decreased by 60.05%.



Major types of Loans, daily balance and average lending rate of loans of the year.

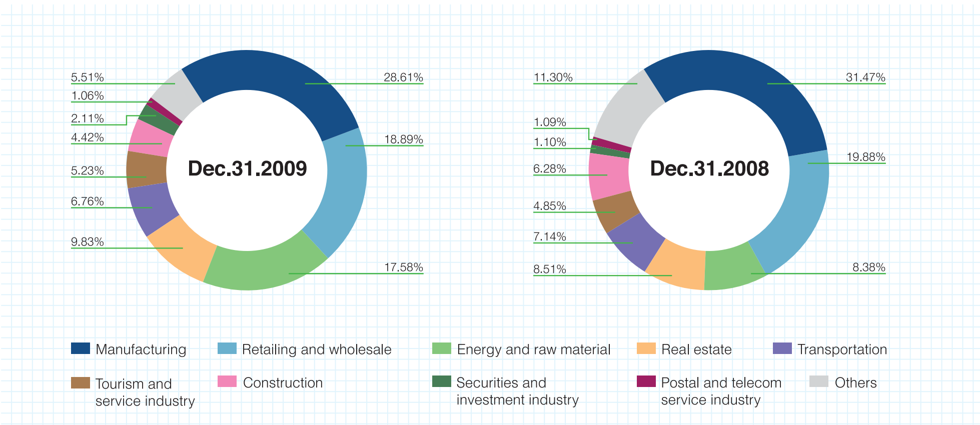
Unit: 1,000 RMB

Item	Daily balance	Average lending rate of the year(%)
Loans	354,430,717	5.21
including: Loans (excluding discount)	273,108,002	5.98
Discount	81,322,715	2.73

Top ten of Industry Distribution of Loans at the end of the reported period

Unit: 1,000 RMB

Industry	2009 EoP			2008 EoP		
	Balance	% of balance	NPL ratio(%)	balance	% of balance	NPL ratio(%)
Corporate Loans						
- Manufacturing	**80,624,208**	**28.61**	**5.17**	60,427,548	31.47	4.88
- Retailing and wholesale	**53,220,534**	**18.89**	**3.86**	38,167,253	19.88	6.01
- Energy and raw material	**49,539,478**	**17.58**	**0.15**	16,082,883	8.38	1.18
- Real estate	**27,687,751**	**9.83**	**0.22**	16,347,974	8.51	4.66
- Transportation	**19,048,232**	**6.76**	**0.29**	13,707,018	7.14	0.64
- Tourism and service industry	**14,730,888**	**5.23**	**0.70**	9,317,377	4.85	3.39
- Construction	**12,466,043**	**4.42**	**1.52**	12,060,430	6.28	0.05
- Securities and investment industry	**5,952,307**	**2.11**	**0.00**	2,104,565	1.10	0.00
- Postal and telecom service industry	**2,993,118**	**1.06**	**17.19**	2,099,325	1.09	30.61
- Others	**15,528,389**	**5.51**	**0.23**	21,707,858	11.30	0.76
Total	**281,790,948**	**100.00**	**2.57**	192,022,231	100.00	3.86



Regional Distribution of Loans

Unit: 1,000RMB

Region	2009 EoP		2008 EoP	
	Balance	% of balance	Balance	% of balance
Guangzhou	**51,954,157**	**13.64**	69,149,940	22.18
Beijing	**50,197,958**	**13.18**	31,248,516	10.03
Hangzhou	**44,708,246**	**11.74**	38,739,714	12.43
Nanjing	**36,399,393**	**9.56**	24,837,045	7.97
Zhengzhou	**28,617,608**	**7.51**	19,439,467	6.24
Shanghai	**28,098,897**	**7.38**	18,434,861	5.91
Dongguan	**19,946,702**	**5.24**	18,959,838	6.08
Shenzhen	**17,026,068**	**4.47**	15,987,620	5.13
Foshan	**16,735,900**	**4.39**	10,752,103	3.45
Shenyang	**15,091,100**	**3.96**	12,085,074	3.87
Kunming	**14,603,072**	**3.83**	7,375,149	2.37
Wuhan	**9,743,731**	**2.56**	7,095,983	2.28
Others	**47,752,187**	**12.54**	37,593,196	12.06
Total	**380,875,019**	**100.00**	311,698,506	100.00

Distribution of Loans by types of collateral

Unit: 1,000 RMB

Types of collateral	2009 EoP		2008 EoP	
	Balance	% of Balance	Balance	% of Balance
Unsecured loans	**86,042,952**	**22.59**	46,449,259	14.90
Guaranteed loans	**124,649,750**	**32.73**	143,412,969	46.01
Loans secured by tangible assets other than monetary assets	**134,694,894**	**35.36**	92,523,686	29.69
Loans secured by monetary assets	**35,487,423**	**9.32**	29,312,592	9.40
Total	**380,875,019**	**100.00**	311,698,506	100.00

Top Ten Borrowers

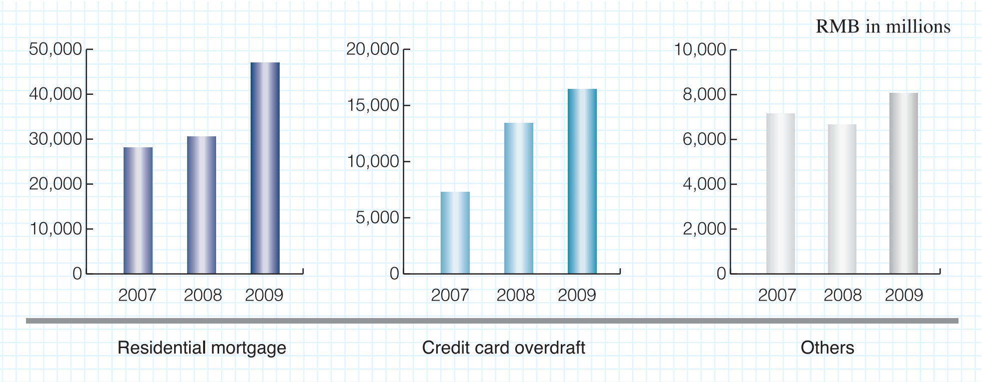
Unit: 1,000 RMB

No.	Name	Balance	% of Net Capital	% of Total Balance
1	Chaoyang Center of Beijing Municipal Bureau of Land Resources	3,500,000	10.21	0.92
2	Ministry of Railways of the People's Republic of China	3,001,690	8.76	0.79
3	Kunming Xinyi Qiaojiang Investment Co., Ltd.	2,000,000	5.83	0.53
4	Fangshan Center of Beijing Municipal Bureau of Land Resources	1,850,000	5.40	0.49
5	Head Office of Shougang Group	1,800,000	5.25	0.47
6	State-owned Assets Management Company of Tianjin Economic Technological Development Area	1,620,000	4.73	0.43
7	Anshan Land Reserve Trade Center	1,500,000	4.37	0.39
8	Shijiazhuang Caimao Investment & Development Co., Ltd.	1,500,000	4.37	0.39
9	China National Building Material Co., Ltd.	1,310,000	3.82	0.34
10	Shenyang Hongyuan Group Co., Ltd.	1,265,962	3.69	0.33
Total		19,347,652	56.43	5.08

Personal Loans Structure

Unit: 1,000 RMB

Item	2009 EoP		2008 Eop	
	Balance	% of balance	balance	% of balance
Residential mortgage	**47,002,159**	**65.71**	30,603,890	60.35
Credit card overdraft	**16,466,634**	**23.02**	13,451,067	26.52
Others	**8,061,965**	**11.27**	6,659,174	13.13
Total	**71,530,758**	**100.00**	50,714,131	100.00



(ii) Investment

Securities and other financial asset investments of the Bank include: financial assets for trading, available for sale financial assets, receivables financial assets, held to maturity financial assets and long-term equity investment.

Investment category by accounting subjects

Unit:1,000 RMB

Item	2009 EoP		2008 EoP	
	Balance	% of balance	Balance	% of balance
Trading	**1,564,846**	**1.8**	2,999,080	3.7
Available for sale	**40,832,913**	**45.8**	39,881,607	49.8
Debt securities classified as receivables	**5,379,100**	**6.0**	6,377,428	8.0
Held to maturity	**41,414,743**	**46.4**	30,770,132	38.5
Long-term equity investments	**4,100**		4,100	
Total	**89,195,702**	**100**	80,032,347	100

Investment category by issuers

Unit: 1,000 RMB

Variety	2009 EoP		2008 EoP	
	Balance	% of balance	Balance	% of balance
Government bonds	**9,927,643**	**11.1**	9,469,919	11.8
Bills and financial bonds of Central Bank	**76,047,990**	**85.3**	69,522,215	86.9
Other bonds[1]	**3,025,967**	**3.4**	860,950	1.1
Other investments[2]	**190,002**	**0.2**	175,163	0.2
Long-term equity investments	**4,100**		4,100	
Total	**89,195,702**	**100**	80,032,347	100

Notes: 1. Other bonds include corporate bonds;

2. Other investments include equity investments of non-listed companies.

Top five Government Bonds at the end of Reported Period

Unit: RMB 1,000

Item	Face value	Maturity date	Interest rate
07 government bond 11	750,000	20100716	4%
08 government bond 11	610,000	20100714	4%
00 government bond 07	500,000	20100921	3%
09 coupon-bearing government bond 28	500,000	20101121	1%
09 coupon-bearing government bond 09	400,000	20120521	2%
Total	2,760,000		

Top five Financial Bonds at the end of reported period (including bills of Central Bank)

Unit: RMB 1,000

Item	Face value	Maturity date	Interest rate(%)
00 CDB 01	4,188,000	20100404	3%
07 bill of central bank 108	3,950,000	20101012	4%
07 bill of central bank 74	3,000,000	20100713	4%
00 CDB 02	1,830,000	20100506	3%
08 ADBC 09	1,740,000	20100519	5%
Total	14,708,000		

Long-term Equity Investment

At the end of 2009, the long-term equity investment of the Bank was RMB 4.1 million, which related to equity investment in Guangdong GDB International Financial Consultation Co., Ltd., holding 41% of the company's shares.

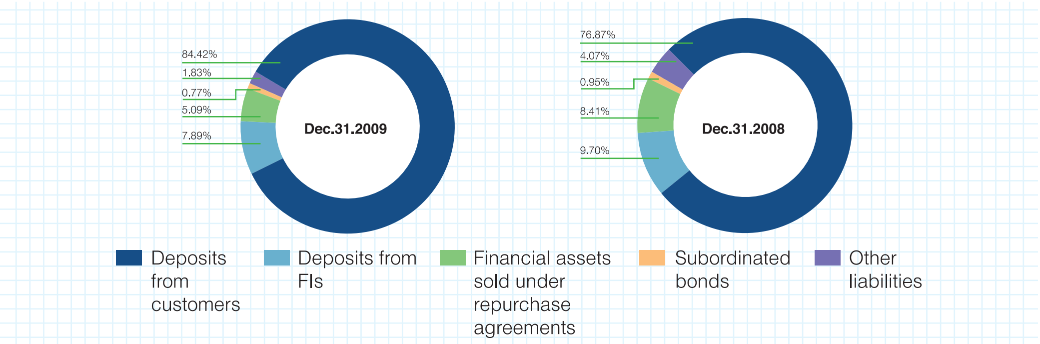
(b) Liabilities

At the end of 2009, the deposits of the Bank amounted to RMB 543.9 billion, an increase of RMB 139.2 billion or 34% on that of last year, which lead to the growth of the Bank's total liabilities, reaching RMB 644.3 billion, an increase of RMB 117.9 billion on that of last year.

Structure of Liabilities

Unit:1,000 RMB

Item	2009 EoP		2008 EoP	
	Balance	% of balance	Balance	% of balance
Deposits from customers	**543,890,399**	**84.42**	404,654,710	76.87
Deposits from FIs	**50,819,648**	**7.89**	51,054,132	9.70
Financial assets sold under repurchase agreements	**32,773,870**	**5.09**	44,271,061	8.41
Subordinated bonds	**5,000,000**	**0.77**	5,000,000	0.95
Other liabilities	**11,812,676**	**1.83**	21,433,731	4.07
Total	**644,296,593**	**100**	526,413,634	100

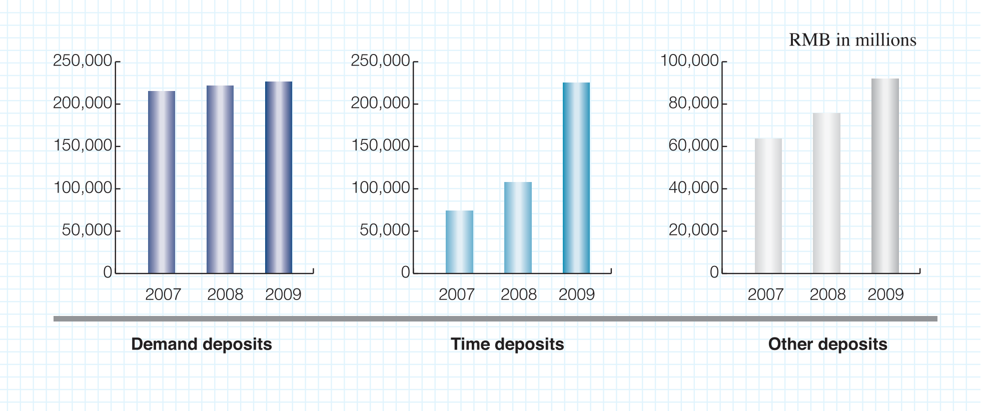


(i) Structure of Deposits

Unit:1,000 RMB

Item	2009 EoP		2008 EoP	
	Balance	% of balance	Balance	% of balance
Demand deposits	**226,358,731**	**41.62**	221,373,433	54.71
Including: Corporate	**191,902,126**	**35.28**	181,059,574	44.75
Personal	**34,456,605**	**6.34**	40,313,859	9.96
Time deposits	**225,464,205**	**41.45**	107,528,034	26.57
Including: Corporate	**170,483,565**	**31.34**	73,081,369	18.06
Personal	**54,980,640**	**10.11**	34,446,665	8.51
Other deposits	**92,067,463**	**16.93**	75,753,243	18.72
Total	**543,890,399**	**100**	404,654,710	100

Since 2008, interest rates have been in a cycle of rate cutting, creating a tendency for customer to switch from demand deposits to time deposits. As a result the proportion of time deposits increased quickly reaching 41.45%, at the end of the year, an increase of 14.88 percent compared with 2008, mainly due to the increase of corporate time deposits.



(ii) Major types of deposits, daily deposit balance and average deposit rate of the year

Unit:1,000 RMB

Item	Daily balance	Average deposit rate of the year(%)
Deposits	353,324,014	1.66
including: Corporate deposits	270,295,591	1.62
Personal deposits	83,028,423	1.78

(3) Financial Position and Operating Performance

Variation of major financial indicators and reasons

Unit: 1,000 RMB

Item	2009 EoP	% increase or decrease YoY	Main reasons
Total assets	**666,486,624**	22.1	Loan growth
Total liabilities	**644,296,593**	22.4	Deposit growth
Shareholders equity	**22,190,031**	13.2	Profit growth
Net Profit	**3,387,131**	21.7	Healthy development of business

Items in Accounting Statement that increase or decrease over 30%

Unit:1,000 RMB

Major accounting subjects	2009 EoP	% increase or decrease YoY	Main reasons
Cash and deposits with central bank	**82,590,316**	30	deposit growth
Deposits with FIs	**10,458,671**	176	growth of deposits with FIs
Financial assets held under resale agreements	**90,113,168**	39	Growth of bills and bonds held under resale agreements
Investments held to maturity	**41,414,743**	35	Purchased held-to-maturity bonds
Placements from FIs	**2,576,589**	(78)	Decrease of FIs call-in
Deposits	**543,890,399**	34	Business developed well
Surplus reserve	**885,281**	62	Normally accrued
Retained earnings	**3,498,911**	56	Profit of reported period
Allowances for asset impairment	**1,465,120**	(79)	Alteration of loan provision coverage ratio
Income tax expenses	**1,624,431**	442	Deduction of asset loss prior to the restructuring in 2008

(4) Other Financial Information

(a) Financial Assets and Liabilities at the end of the Reported Period

Unit:1,000 RMB (Forex converted into RMB)

Item	Opening amount	Profit or loss on Changes in fair value	Accumulation of changes in fair value including in equity	Ending amount
Financial Assets				
Including:1. Financial assets at fair value through profit and loss	3,155,456	(116,800)		**1,669,633**
Including:derivatives	156,376	(51,589)		**104,787**
2. Debt securities classified as receivables	6,377,428			**5,379,100**
3. Available for sale[1]	39,881,607		694,524	**40,832,913**
4. Held-to-maturity investments	30,770,132			**41,414,743**
Total Financial Assets	80,184,623	(116,800)	694,524	**89,296,389**
Derivative Financial Liabilities	150,338	(75,931)		**74,407**

Notes:

1. Change in fair value that accounted in equity directly.
2. There is no necessary tie-up relationship in this form.

(b) Off-balance Sheet Projects which may have Material Impact on Financial Position and Operating Results

Unit: 1,000 RMB

Item	End of 2009	End of 2008	End of 2007
Loan Commitments	**37,839,468**	28,066,636	30,801,422
Bank Acceptances	**126,199,257**	89,604,814	69,493,613
Letter of Guarantee Issuance	**5,481,396**	5,764,956	5,034,687
L/C Issuance	**9,741,993**	6,675,550	8,292,452
Derivative Financial Instruments	**9,912,343**	8,844,523	1,958,596
Leasing commitments	**2,208,676**	2,098,502	1,663,582
Capital Expenditure Commitments	**578,707**	545,430	450,328

(c) Change in on-sheet and off-sheet interest receivable

Unit:1,000 RMB

Item	End of 2009	End of 2008
On-sheet interest receivable	**2,414,746**	2,612,876
Off-sheet interest receivable	**2,774,923**	2,594,101

Due to the Bank moving the overdue loan interest receivable over 90 days from on-sheet to off-sheet, the Bank doesn't make any provision for loan interest receivable (except credit card interest receivable) alone.

3. Summary of Banking Business

(1) Corporate Finance

—— **Corporate Deposits and Lending:** Government-related projects were proactively promoted and HO-to-HO marketing and cooperation was enhanced. Marketing and management platforms were put in place for the rapid development of corporate business. The new template for centralized marketing of large corporate credit customers was tested with satisfactory results produced from its piloting in Nanjing, Kunming, Wuhan and Zhuhai. The customer pool, business volume and profits, in these pilot cities were better than bank-wide average due to the creation of a specialized team for the marketing of complex business and improvement of working methods. Cash management product integration was accelerated and a system was perfected for the purpose of enhancing cash management marketing efforts. The Fast Loan was comprehensively promoted in order to affirm the product brand. At year end, corporate deposit balances were RMB 454.5 billion, up 37.8% YoY. Corporate loans outstanding reached RMB 309.3 billion, an 18.5% YoY increase.

—— **Trade financing:** Efforts in product research and development were strengthened, with products such as domestic L/C, financial leasing factoring and forex payment made available. Based on HO-to-HO marketing, various marketing competitions and social networking activities for customers were organized to stimulate business development. Annual international settlement volume accumulatively amounted to USD 42.019 billion. Domestic A/R factoring-based financing volume accumulated to RMB 8.03 billion, with balances at RMB 4.6 billion, up RMB 3.57 billion YoY. A total of RMB 11.8 billion was disbursed in tri-party business, with balances at RMB 4.3 billion. RMB 26.05 billion was accumulatively disbursed in the chattel pledge business with balances at RMB 13.8 billion.

—— **FI Business:** Syndicated loan business was staunchly developed with the growth in asset business underpinned through the marketing of indirect syndicated loans, participation in loan syndication led by other peer banks and lead taking in loan syndication. Substantial effort was put in to expanding sources of treasury and the continuous development of third party custody business. The FI deposits and lending business was initiated to expand deposit sources through the enhancement of key customer marketing with credit facilities to financial institutions being consistently promoted. Product availability was continuously innovated to launch services such as a comprehensive financial service for equity investment funds, insurance fund investment cooperation and domestic capital market financial consulting. HO-to-HO marketing was fortified to maintain relationships with FI customers. Full cooperative agreements with Bank of China, Import/Export Bank of China were endorsed. The daily average of FI deposits amounted to RMB 44.695 billion, balances with FI amounted to RMB 3.133 billion and the daily average of FI net deposits reached RMB 41.562 billion, up RMB 3.557 Billion YoY.

(2) Personal Finance

—— **Personal Savings and Loans:** 46 new standard outlets were incorporated, bringing the total number to 160. VIP OCRM was officially released for usage in a one to one consultant-like marketing service. A total of 97 new fund products were introduced with 51 new insurance products also being launched. Personal loan products such as offset loans and fixed interest rate housing loans were launched to provide a wider range of product choices for customers. The personal loan management system, wealth management product sales system and Yi Hu Tong Optimizing Project were initiated successfully while the program development of the Bank-insurance system was completed. The Personal Banking Core System Integration project made smooth progress; personal business analytic system setup received approval which means development potential has been greatly improved. At year end, the daily average of savings deposits amounted to RMB 79.23 billion, up 35.3% YoY. Personal loans stood at RMB 71.53 billion, up 41% YoY. VIP customers reached 59,400 with a 32.6% increase YoY. Total financial assets of VIP customers reached RMB 61.17 billion, up 41.5% YoY.

—— **Credit Card:** The primary focus throughout the year was on product development and customer retention which were aimed at high value consumers with high consumption volume, who made use of frequent installments and overdraft/recycling. Marketing efforts were enhanced and through the launch of consumption promotion activities, the strengthening of cooperation between the various marketing channels and cross-selling among the Bank's customers, the volume of issued credit cards was raised.

Customer services quality was consistently upgraded and the Business Continuity project was implemented to achieve the genuine 7*24 non-stop services. The brand image of Guangfa Card was improved which resulted in it receiving industry awards such as CUP Market Exploration Award, Credit Card with Prominent Competitiveness, Charity and Public Welfare Innovation and Best Credit Card for Ladies. The incremental card acquisition amounted to 1.467 million throughout the year, with accumulative acquisition standing at 10.33 million.

(3) Treasury

Treasury department functions were optimized and RMB/FCY treasury business was integrated. The trade process reengineering was enhanced to formulate business guidelines for treasury operation/money market, fixed yield investments, interest rate trade, forex transactions, debt financing instruments, bond settlement proxy. Regularized management was adopted for the trade processes and various business operation procedures were reformulated based on the various business guidelines to ensure the implementation. The risk management structure was perfected by establishing the treasury transaction risk control structure featuring front, middle and back-office segregation. Treasury business credit risk and market risk management frameworks were revised and perfected to improve liquidity management and establish the RMB cash flow management model and improve the viability of position management. The inter-bank forex market maker license was acquired. RMB/FCY products were integrated. The five major treasury product lines: treasury transactions, hedging, corporate wealth management, personal wealth management and investment banking were formed and the forex payment business was launched.

At year end, the balance of bonds booked in bank accounts reached RMB 83.4 billion, up RMB 12.3 billion YoY or 17.3%. Throughout the year, a total of 111 tranches of bond were underwritten, with underwriting volume amounting to RMB 18.1 billion. In the inter-bank market, RMB trade volume reached RMB 2314.8 billion (including spot bonds, repurchase and lending), RMB against forex spot trade volume reached USD 71.4 billion, up more than 5.37 fold YoY. The Bank acted as lead underwriter for 4 debt financing instrument projects worth RMB 1.7 billion. The spot bond transaction volume in bond settlement proxy reached RMB 3.24 billion, with the amount repurchased being RMB 400 million.

(4) E-banking

In order to provide a comfortable, secure and speedy E-banking service to customers, in 2009, new products were enriched in various channels such as online banking, self-service facilities, SMS platform and phone banking to continuously optimize product functions. Great efforts were made in self service facility installation and self-service channel expansion. The automatic phone banking reengineering project and expansion of the business functions of customer service centre were successfully implemented; the new version of our website

and the new generation banking call center were initiated. New online banking services such as online international settlement, proxy salary disbursement, fund distribution, credit card repayment, third party custody, warehouse-trade-bank tri-party cooperation, self-bill payment and inter-bank transfer and online banking in English effectively improved our capability to serve our customers and improve all-round customer experience.

As of year-end, our E-banking customers amounted to 1.35 million, up 42.5% YoY; a total of 4.99 million transfer transactions, worth RMB 836.7 billion, via online banking were made throughout the year. Online payment transactions totaled 12.08 million with a total value of RMB 3.8 billion; more than 750 new ATM/CRS were installed throughout the year; at the end of 2009 self service facilities which were connected bank-wide amounted to 2969 machines.

(5) Information Technology and R&D

The development strategy of Technology Invigorating Guangfa was adhered to, and there was a continuous expansion in investment in technology. Cutting-edge computerized information technology and network technology were applied to develop banking business systems, achieving prominent accomplishments in computerization. The IT system tailored to the Bank's own strategic characteristics has been put in place to provide technical support and guarantee for bank-wide business development. The goals of zero breakdown of core system operation and zero core system telecommunication disconnection were achieved thereby supporting the stable development of the Bank.

2009 marked the first year of the formal initiation of the Bank's 5-year IT Strategic Plan. Through the implementation of the IT Strategic Plan, the core banking system transformation was strengthened making the core system structure better aligned. The VIP customer management system and optimized E-banking system were constructed to strengthen key business functions such as customer management and service channels. The building of back-office centralized operation platform was launched as backbone of the transformation of the back-office operation management template. A data storage platform able to support management decision-making and meet regulatory requirements on data submission was put in place further strengthening information technology risk management and improving information safety

management capability aiming to mitigate operational risk in key information systems. Great importance was attached to IT resources input and the construction of The National Data Center has been initiated. The new Data Center is capable of supporting the Bank's business development in the long run by changing the means of infrastructure construction, optimizing IT infrastructure resources in an all-round way as well as enabling rolling construction and dynamic adjustment according to business development demands to effectively upgrade the supporting capability of infrastructure.

4. Risk Management of the Bank

(1) Summary of Risk Management

In 2009, risk management within the Bank progressed steadily with the Bank setting up an independent, comprehensive, and professional risk management system alongside an appropriate risk management structure. The Bank further detailed the risk management framework of corporate credit, personal credit, FI business and financial market business; set up comprehensive and lined risk management organizational structure, enhanced the prevention and management of credit risk, paid attention to the measurement and control of market risk, enhanced compliance management, improved operational risk management, optimized fund allocation requests and enhanced liquidity risk management leading to an overall improvement in the Bank's risk management ability.

The BOD and the Risk Management and Connected Transaction Control Committee, under the BOD, is responsible for reviewing risk policies and systems; in addition, it is responsible for implementing internal control schemes, evaluating the risk management ability of the Bank, examining and verifying management strategy of credit risk, market risk, operation risk and liquidity risk. The Chief Risk Officer is authorized by the Bank to take charge of the comprehensive risk management. The various levels of the Credit Approval Committees are the decision-making heart of credit approval and carry out their work according to the risk management procedures approved by the Bank's BOD. Credit Management Department, Credit Approval Department and Asset Management Department as well as other business management departments take charge of risk management as per the risk management strategy and requirements of the whole Bank.

The year's credit business risk management guidelines are a very important reference source for providing authorization and guidance to different regions and industries with different risks factors, and include the quota management of credit business types and the release limit management of the industry. The approval flow of the Bank was controlled by the credit management system and the newly-released credit statistics and monitoring system, which can identify risks and initiate corresponding control measures in an accurate and timely manner.

(2) Analysis and illustration of risk management

(a) Five-tier Loan Grading Result and NPL conversion

Five-tier Loan Grading Result and Loan Loss Provision

Unit:1,000 RMB

Item	Balance at the end of 2009	% of total	Loan loss provision balance at the end of 2009
Normal	362,467,125	95.16	8,731,994
Special-mentioned	9,284,416	2.44	635,576
Sub-standard	4,261,570	1.13	1,272,485
Doubtful	3,367,148	0.88	2,104,935
Loss	1,494,760	0.39	1,494,760
Total	380,875,019	100.00	14,239,750

Provision coverage rate: 156.1% (total amount of loan loss provision/total amount of NPL*100%)

Changes to the Bank's Non-Performing Loans

Unit:1,000 RMB

Item	End of 2008		Change within the reporting period		End of 2009	
	Amount	% of total	Amount	% of total	Amount	% of total
Sub-standard	3,457,367	1.11	804,203	0.02	**4,261,570**	**1.13**
Doubtful	4,422,854	1.42	(1,055,706)	(0.54)	**3,367,148**	**0.88**
Loss	989,501	0.32	505,259	0.07	**1,494,760**	**0.39**
Total	8,869,722	2.85	253,756	(0.45)	**9,123,478**	**2.40**

(b) Accrual and Write-off of Loan Loss Provision in 2009

Unit:1,000 RMB

Item	Loan Loss Provision
Opening balance	(13,360,269)
Charge for the year	(2,759,033)
Release during the year	1,297,611
Unwinding of discount	127,001
Recoveries	(102,476)
Write-offs	557,416
Closing balance	(14,239,750)

(c) Risk management of group customer credit business

The Bank has 1,037 group customers in 2009 and the total of loans advanced to them reached RMB 105.8 billion. Group customer loans encompassed industrial groups for all fields and sizes along with their connected enterprises. A complete group customer management framework and related rules and policies were implemented. The Bank accumulated rich management experience in standardized credit management and connected transaction risk prevention.

According to the relevant policies of the Bank's group customer risk management, the Bank adheres to comprehensive standards for the access of group customers, except in relation to equity control, the same legal person representative, obvious business influencing relations, family joint control, key management personnel joint control, close mutual guarantee relations. Customers transferring assets and profit without abiding by fair value are also incorporated into group customer management. During the credit approval stage of group customers, the Bank further verifies the connected relationships of the group customer, and determines the total credit limit. During the examination process, if group credit exceeds a quota, the credit shall be reported to the HO for approval. Besides on-site inspection, off-site monitoring and stress testing for post-loan management of group customers is also carried out to evaluate, monitor, warn and prevent the overall risks and connected risks of group customers. In addition, the Bank dynamically maintains and upgrades group customer information and continually innovates and improves the group customer management.

(d) Main Polices, Measures, and Effects of Non-Performing Assets Management

In 2009, the Bank has strengthened the disposal of NPA and has made the target for collecting existing NPA clear. The Bank continued to adopt various methods of disposing of NPA and while taking into account the individual circumstances of NPA, the Bank utilized a number of recovery methods including direct recovery, legal lawsuits, sale of collateral and write-off.

The Bank's main measures of NPA disposal included:

(i) The continued strengthening of risk management in order to keep within limits of new NPL.
(ii) Adopting an effective mechanism of incentive and constraint to ensure branches reserve sufficient funds to cover NPL.
(iii) Focusing on high value NPL and analyzing them one by one, assigning specialized employees to collect NPL through the adoption of multifold and targeted measures in order to minimize loss to the Bank.
(iv) Focusing on projects involved in lawsuits, propelling the judicial procedures of the NPL projects involved in lawsuits to get paid as soon as possible.
(v) Strengthening write-offs in order to accelerate NPL disposal.

Through the enforcement of the above management measures, the Bank made an outstanding achievement with regards to NPL collection: more than RMB 3.9 billion NPA was disposed; NPL ratio decreased 0.45% from that of the end of 2008.

(e) Basic Information concerning Repossessed Assets

Unit:1,000 RMB

Item	End of 2009	End of 2008
Repossessed assets	**295,520**	84,646
Including: Buildings	**268,294**	59,467
Land-use rights	**20,764**	12,901
Others	**6,462**	12,278
Deduction: Allowances for impairment losses	**(26,430)**	(29,582)
Net value of repossessed assets	**269,090**	55,064

(f) Note on Corporate Internal Control

The Bank strictly obeys Law on Commercial Banking and related financial regulations issued by CBRC. The Bank continues improving its modern corporate governance structure, pushing organization structure and business process reform, strengthening risk identification and evaluation, while consolidating internal control management and intensifying its efforts on monitoring, evaluating and rectification in order to stimulate internal control improvement thereby ensuring steady and healthy business development. The Bank has built a relatively complete, reasonable and effective internal control system, but realizes the need for continuous improvement in its practices. .

(i) Based on regulatory requirement and AOA stipulation, the Bank built a corporate governance structure and mechanism which consists of a General Meeting of Share Holders, BOD, BOS and Senior Management who are mutually independent, coordinated and balanced. In order that the responsibility boundary is clearly identified, related systems have been improved and perfected and decision making functions and supervisory functions have been strengthened. Relevant bodies, such as BOD and the Specialized Committees under BOD, follow relevant rules, regulations, and AOA, which ensure that they perform their duties diligently and make decision impartially. Collective deliberation and democratic decision making are adopted in risk management and internal control to provide organizational guarantees for the effectiveness of internal control.

(ii) The Bank, promoted the implementation of projects including the reengineering of back-office business procedures, new accounting standard and internal account construction, tightened up the creation of new rules and regulations, refined and improved business operating instructions, optimized organizational structure and HR management, and improved management efficiency. Furthermore, it promoted the work of front, middle and back office business separation to intensify mutual monitoring and discipline among different positions, strengthened the internal mechanism for the advanced prevention of risk, implemented close control following monitoring and rectification to effectively improve risk prevention ability.

(iii) Based on the Bank's overall development strategy to boost the implementation of IT development planning the construction and perfection of the IT system improved system operating efficiency. In addition, IT risk evaluation and rectification was conducted in order to strengthen information security management and improve its support for internal risk prevention and control. Three lines of defense were identified: IT Dept., Compliance Dept. and Audit Dept. in order to bolster IT risk management.

(iv) The Bank continued to strengthen internal supervision, comprehensively promoting audit system vertical reform and off-line audit system construction to improve the independence and effectiveness of audit supervision and appraisal. Inspection and guidance to outlets was strengthened and inspection of credit, operation management was carried out. IT and anti-money-laundering were followed to promote the advancement of internal control while actively implementing CBRC requirements concerning case prevention and control. Operational risk inspection strengthened supervision and implementation of correcting actions to enhance case prevention and control ability thereby reinforcing the strict accountability mechanism.

The Bank intends to streamline existing business procedures to develop risk control and self evaluation measures and mechanisms that cover major business procedures, to improve internal control management tools and enhance internal management ability while implementing requirements contained in the Corporate Internal Control Basic Norms. Now, bidding related work has been completed; the plan will be carried out in 2010.

(3) Risks Encountered by the Bank and Corresponding Countermeasures

(a) Credit risk

Credit risk refers to the risk that the borrower of the Bank or transaction counterparts failed to execute the obligations according to the contract and caused economic loss due to various reasons.

(i) Credit business risk guidelines of the Bank were further improved, both industry risk analysis and regional risk features were taken into consideration. The Bank further improved the measurement method of credit risk management, used stress test and other risk measurement measures to identify risk and simulate the degree of risk loss. Furthermore, it set up corresponding management strategies as guided by the stress test result. Credit portfolio management includes industry quota and also special business type quota.

(ii) The authorization system of the Bank was further improved, the management of which was at different levels and a three-dimensional authorization system was set up. Except for traditional institution authorization, there is special authorization on business types; for example, authorization on standardized product "Faster Loan" to SMEs, as well as overall authorization for targeted regions, for instance the overall authorization to certain branches of Guangdong Province.

(iii) In 2009, the Bank began to set up regional approval center and adopt the dedicated approver system, and set up a credit liability system with clear guidelines. Based on the credit risk review organizational structure, the Bank divided labor, set up steady and professional teams to review and approve various credit business types, and also set up an approval team according to regional character thereby guaranteeing the efficiency and professionalism of approval.

(iv) The Bank began a comprehensive reengineering of post-loan management and risk classification in 2009. This included creating objective warning triggering standards reflecting the customer's operational risks, taking preventive measures according to the stipulated procedures, improving the work efficiency of the post-loan management force, and improving the accuracy of risk classification through scientific and reasonable post-loan management.

(v) The Bank's detailed risk policies were further standardized and upgraded. In 2009 the Bank comprehensively streamlined, updated and integrated the original and latest credit policies, with emphasis on policies relating to the monitoring of the purpose of fund.

(vi) Besides emphasizing the first repayment source, the Bank further improved guarantee management policies, taking collateral and pledges, deposit margins and guarantor guarantees as the major measures to dilute credit risks. As for pledge and collateral guarantees, the Bank established clear standards on access and collateral ratio, and developed a detailed value evaluation system. In 2009 the Bank started and applied a credit guarantee management system.

(vii) The Bank paid attention to the management of operational rules, enhancing its review of contracts and agreements for innovative business, putting into place credit risk dilution measures.

(b) Liquidity risk

Liquidity risk refers to the risk that commercial banks cannot access sufficient fund or cannot get fund in time at a reasonable cost to respond to asset growth or debt repayment upon maturity, even though commercial banks are solvent. Liquidity risk can be divided into financing liquidity risk and market liquidity risk. Financing liquidity risk refers to risk that the commercial banks cannot meet fund requirement needs in time without affecting the daily operation or the financial status quo. Market liquidity risk refers to the risk that commercial banks cannot sell assets at reasonable price in order to raise funds due to insufficient market depth or market vicissitudes.

The Bank's liquidity risk management target is to control liquidity risk within the bearable scope of the Bank through various methods, consider the relations between liquidity risk and other risks faced by the Bank and operational strategy and goals, realize the Bank's continuous operation, and avoid the occurrence of all types of liquidity risks. Liquidity management is the key component of the Bank's assets and liabilities management system. The Assets and Liabilities Management Committee under Senior Management is the decision-making and implementation institution of liquidity risk management of the Bank.

In 2009, the Bank continued to improve liquidity risk management level, and liquidity risk continued to be well controlled. The major factor that affects the Bank's liquidity includes macro policy, supervision requirements and market environment. The liquidity management strategy of the Bank is to appropriately prolong the assets duration as well as improve core liability steadiness, maintain the liquidity and cashability of bonds portfolio, and raise the level of asset return on premises of liquidity security. Regarding the liquidity gap of Dec. 2009, the proportion of loan assets with maturity exceeding one year improved noticeably; furthermore, current deposits grew rapidly, the sedimentation rate of current deposit was relatively high, the liquidity gap of various terms was controlled at a satisfactory level, indexes such as liquidity gap ratio, liquidity ratio, loan deposit ratio etc. were controlled within regulatory requirements.

In order to prevent the possible impact of extreme factors upon the Bank and improve the capability of the Bank against risks, the Bank carried out stress tests on a regular basis; at present, the liquidity stress test results show the Bank's liquidity is abundant.

(c) Market Risk

Market risk is risk that arises due to loss of transaction and non-transaction, on-sheet and off-sheet business caused by adverse movements in market price including interest rate, exchange rate, and stock. Market risk of the Bank arose mainly through interest rate and exchange rate risk, with stock and commercial not contributing to risk.

Market risk management of the Bank is the whole process of market risk exposure identification, measurement, monitoring and reporting. The Bank's market risk management objective is to maintain market risk within an acceptable level in order to achieve revenue maximization after risk adjustment according to capital strength and risk preference. In 2009, the Bank devised a series of important market risk management policies and regulation, established market risk management and legal person management systems to regulate policies and processes such as market risk identification, measurement, monitoring, reporting, limit management, market value evaluation and financial asset devaluation. For accurate estimation of market risk supervisory capital, the Bank regulated classification standards of bank accounts and transaction accounts in 2009.

Market risk management on bank accounts attaches importance on interest risk and exchange risk management. The Bank continuously assessed the mismatch between interest-sensitive assets and interest-sensitive liabilities, correcting the mismatch when necessary. The Bank evaluated exchange risk through quarterly stress testing.

Market risk management on transaction accounts occurs mainly through the distributing index of transaction accounts' market risk limit, and includes exchange rate and interest rate sensitive indices and the loss-stop index. Methods such as sensitive analysis and stress testing were adopted to estimate the market risk of transaction accounts.

(d) Operational Risk

Operational risk relates to risk caused by defective internal procedures, staff, IT systems and external events.

GDB's operational risk management system has been established. The Internal Control and Compliance Committee is responsible for coordinating the Bank's operational risk management. Compliance Department takes the lead in managing operational risk; other HO departments are responsible for specific operational risk management duties according to their business responsibility. In 2009, the Bank's operational risk management measures included:

(i) Actively carrying out investigation and research and finishing selected work of professional institutions, developing and planning relevant projects using consulting services to review and improve existing business processes; establishing risk and self evaluation control methods, procedures and mechanisms covering existing major business procedures and designing operational risk management tools for the systematic evaluation, monitoring and control of operational risk. The above project will be spread out the whole of 2010 in accordance with the plan.

(ii) Accelerating IT platform construction. The Bank continuously improved infrastructure construction and information safety management, conducted IT risk evaluation and development, strengthened IT support to operation management, and enhanced operational risk prevention and control ability.

(iii) The Bank Strengthened rules and regulations development, improved business and management processes and refined business cooperation regulations. Moreover, through the implementation of back office business procedures, new accounting standards and internal account construction, the Bank pushed forward front, middle and back office business separation, intensified mutual supervision and restriction among positions establishing internal control mechanisms for advance prevention of operational risk.

(iv) The Bank pushed forward HR management reform, strengthened the HR management system and effective incentive and restraint mechanism, enhanced HR internal control and risk management, strengthened business training and improved staff's quality and competence.

(v) The Bank improved operational risk monitoring evaluation and rectification mechanisms by intensifying audit monitoring, inspection and instruction from HO departments regarding operational risk of the various business lines. Daily monitoring of operational risk was conducted by outlets with active evaluation and correction of operational risk areas taking place alongside intensive monitoring and management of weak points.

(e) Compliance Risk

Compliance risk is risk caused by legal sanction, supervisory penalty, significant financial loss and deputy loss through non-abeyance of laws, rules and regulations.

The Bank's compliance risk management system includes: BOD and Senior Management supervision, improved compliance risk management organization structure, a definite compliance policy and annual compliance management plan, appropriate compliance risk identification and monitoring, continuous compliance training and advertising, and coordination and interaction among HO Audit Department and other HO departments. Measures adopted in 2009 for strengthening compliance risk management include:

(i) Improved compliance risk management organization structure: In 2009, the Bank continued to intensify compliance risk management department construction both in HO and outlets, introducing compliance management talents, specifying professional work divisions, improving standardized work processes. The Bank implemented systems for Compliance Dedicated Staff and Anti-money Laundry Compliance Staff to strengthen the first line of defense of compliance risk management. The Bank's compliance risk management organization structure has been established.

(ii) Strengthened monitoring of compliance risk: The Bank complied with and analyzed the latest developments in laws, rules and regulations, combining the Bank's key businesses and products to warn of any compliance risk. In addition, the Bank continuously carried out compliance reviews on new products, processes, regulations and systems in order to strictly control compliance risk.

(iii) Improved rules and regulations system: The Bank developed internal rules and regulations to improve internal management and encourage steady business development.

(iv) Strengthened compliance training and compliance culture advertising: The Bank strengthened compliance training for new staff, compliance and compliance dedicated staff establishing a compliance advertising column in OA system to deliver compliance information to Bank staff, and making it a platform for compliance and anti-money laundering training.

(f) IT Risk

IT risk is the operational, legal and reputational risk caused by natural factors, human factors, technical loopholes and management deficiencies during the usage of IT in commercial banks.

BOD and Senior Management have specific responsibility for IT risk management. Responsibility for information regarding the Safety Leadership Working Group and a daily discussion mechanism have been established. The three defense lines IT Dept., Compliance Dept. and Audit Dept. have been improved.

Further improved IT rules and regulations include the implementation of SASB system and credit card core system upgrades for the mitigation of core host resource risks. After upgrading, system support capacity was enhanced three-fold providing a safe, efficient and steady system platform to support the Bank's continuous business development.

Implemented Disaster Recovery Centre project phase II: Disaster backup of eleven systems including e-banking system, third party custody system, and modern payment system has been added to the project. The disaster recovery index of six systems covered by phase I has been upgraded. In order to test the validity of disaster recovery proposals as well as the feasibility and recoverability of disaster recovery systems, the Bank carried out drills as per the project phases. After production of disaster system project phase II, the disaster recovery center has covered the Bank's core business, payment and settlement business and major channel business thus meeting business continuity needs.

Based on the requirements of state IT safety grade protection management, the Bank has finished grading of 43 systems, and conducted internal testing on CMS and open-end fund agency systems, results of which are in line with requirements.

Through the above mentioned IT risk prevention and control measures, IT risk of the Bank was further controlled and mitigated.

5. The Bank's Future Prospects

The year of 2010 is crucial to the continuous recovery and real extrication of recession of the global economy. The domestic and international environment will be more complicated. It is predicted that macro-control policies will be more prospective and flexible in 2010. The national macro-policies will not only focus on economic growth, but economic structural adjustment and inflation expectation management will also gradually play a significant role. On one side, macro-control policies will maintain continuity and stability due to the negative employment ratio and lack of abundant recovery power; on the other hand, the price level of society begins to show an increase, inflation will be enhanced according to expectations and the micro-control frequency and force of macro-policies especially for monetary polices will be accelerated and strengthened respectively. In the meantime, as the financial crisis spreads, the trend of trade protection and trade frictions will spread. All these will require higher levels of liquidity management, market risk management, assets and liabilities structuring, capital management capability and others.

(1) 2010 Operation Objectives

——Total assets to reach RMB 836.6 billion, up 25.5%;
——The balance of deposits to reach RMB 700.7 billion, up 25.2%;
——The balance of loans to reach RMB 476.6 billion, up 25.1%;
——Net profit to reach RMB 5.18 billion, up 52.9%;
——NPL ratio at the end of 2010 should be controlled within 1.8% based on the Five Grade method.

(2) Major operational measures

More effort will be made to study and analyze macro economic financial environment, as well as peers' development. The Bank will improve pertinence and flexibility of operation measures according to new situations, actively implementing state macro control polices and regulatory polices. Besides, the Bank will organize a specialized group to develop and revise the medium and long term strategic plan, business development plan and regional development plan.

Business development will be accelerated in order to gain market shares. Reinforce HO to HO marketing, spread centralized marketing mode. The Bank will push up SME marketing structure construction in key regions, establish a multi-channel corporation platform, and improve product systems including Faster Loan; develop personal banking business, increase credit supply; improve wealth management business, enrich product varieties, strengthen cross-selling; attach great importance to quality and quantity in its credit card business, generate new products, enlarge sales channels and improve service quality.

More emphasis will be placed on capital management reinforcement and CAR improvement. Capital restriction should be fortified to improve capital efficiency. The Bank will give more emphasis on capital quality optimization in order to increase internal profitability and enhance capability in endogenous capital generation. The capital replenishment plan will be studied and implemented and the Bank will utilize diversified approaches for capital increment such as sub-debt issuance and additional share offering and press ahead various IPO preparatory undertakings.

Risk management should be solidified to shore up steady business development. Credit risk management need to be consolidated and credit structure needs to be promptly realigned; the vertical risk management template needs to be strengthened to deepen the credit approval mechanism reform Compliance and internal management will be strengthened to prevent the occurrence of cases. The vertical and independent audit organization system will be perfected to improve audit efficiency and quality. NPL disposal template will be innovated to intensify NPL collection.

Outlet development will be expedited to enhance capability in financial service. The establishment of branches in provincial capitals and economically-developed cities will be accelerated to enlarge service channels and enhance capability in serving customers in an all-round way.

Efforts in branding will be enhanced to reshape GDB's image. The branding undertaking will be continuously pushed forward by formulating new branding and Corporate Branding guidelines. Advertisement placement via mainstream media will be consolidated to enhance customers' awareness in the Bank. The brand management manual will be compiled to regularize the comprehension and usage of Bank brand and consistently upgrade GDB reputation and popularity.

HR reform will be advanced aiming at strengthening leadership build-up and talent cultivation. HR reform and planning will be implemented in an effort to establish a value creation-oriented appraisal management system and marketized compensation system; the build-up of leadership at all levels will be solidified to enhance leadership skill. Through the incorporation of internal cultivation and external engagement of talented staff, the overall quality and professional skills of employees will be upgraded.

The implementation of key projects will be geared up in a bid to consolidate the groundwork for the Bank's development. The implementation of ITSP will be driven forward in a centralized fashion and the fundamental application platform will be continuously optimized. The back-office business process reengineering project will be continuously driven forward to upgrade operations and operational systems. The Nanhai Financial Service Center project will be expedited to consolidate the Bank's development foundation.

Routine Work of the Board of Directors

1. Details of Board Meetings

On 24th February 2009, the Bank convened the First extraordinary meeting in 2009 of the Fifth Board of Directors, which reviewed the following proposals: Proposal on GDB 2009 Business Plan and Financial Budget, Proposal on 2009-2010 Capital Replenishment, Proposal on the Approval of the Resignation of Mr. Gaurang Hattangdi from the Position of Deputy President of Guangdong Development Bank Co., Ltd.., Proposal on the Appointment of Mr. Simon Chung as Deputy President of Guangdong Development Bank Co., Ltd. and Proposal on Annual Technical Cooperation and Assistance (TCA) Plan for 2009. Relevant resolutions were reached at the meeting.

On 17th March 2009, the Eighth Meeting of the 5th Board of Directors was convened and reviewed the following proposals: Proposal on the Resignation of Mr. Liu Lefei from the Fifth Board of Directors of Guangdong Development Bank Co., Ltd. and relevant Arrangement concerning the By-election of Director,, Proposal on the Member Adjustment for Relevant Specialized Board Committees, Proposal on Senior Management Structure for 2009, . Proposal on Modifying Specialized committees under Senior Management, Proposal on 2008 Auditors' Reports of Guangdong Development Bank Co., Ltd., Proposal on the 2008 Final Financial Report of Guangdong Development Bank Co., Ltd., Proposal on 2008 Profit Distribution Plan for GDB, Proposal on GDB 2009 Business Plan and Financial Budget, Proposal on the 2008 Annual Working Report of the Board of Directors of Guangdong

Development Bank Co., Ltd., Proposal on 2008 Annual Report of Guangdong Development Bank Co., Ltd., Proposal on Core Market Risk Policy of Guangdong Development Bank Proposal on Authorizing Market Risk Limits of 2009 to Head Office Treasury Department and Macau Branch, Proposal on Connected Transaction of Forex Placement/Loan and Forex Trading Limit with Citibank and its related Parties, Proposal on Connected Transaction of Underwriting of 2009 Debt Financing Instrument of SGCC, Proposal on 2009 Issuance Plan for Subordinated Bonds and Proposal on the Convening of the 2008 General Meeting of Shareholders of Guangdong Development Bank Co., Ltd.. Relevant resolutions were reached at the meeting.

On 17th April 2009, the Second Extraordinary Meeting in 2009 of the 5th Board of Directors was convened and reviewed the following proposals: Proposal on Establishing Small Enterprise Financial Department, Proposal on GDB 2009 Business Plan and Financial Budget, Proposal on Authorizing Senior Management for Approval of External Donation, Proposal on Reporting Stress-testing Approach and Results to CBRC, Proposal on Convening of the 2008 General Meeting of Shareholders of Guangdong Development Bank Co., Ltd. Relevant resolutions were reached at the meeting.

On 22nd June, 2009, the Third Extraordinary Meeting in 2009 of the 5th Board of Directors was convened and reviewed the following proposals: Proposal on 2008 Auditors' Report of Guangdong Development Bank Co., Ltd. (Prepared in conformity with U.S. GAAP), Proposal on Resignation of Mr. Li Ruohong from the Fifth Board of Directors of Guangdong Development Bank Co., Ltd. and relevant Arrangement concerning Filling Director Vacancy and Proposal on Electing the Chairman of the Fifth Board of Directors of Guangdong Development Bank Co., Ltd. Relevant resolutions were reached at the meeting.

On 31st July 2009, the Fourth Extraordinary Meeting in 2009 of the 5th Board of Directors in form of correspondence for voting reviewed the Proposal on Measures for the Implementation of 2008 Annual Profit Distribution of GDB.. Relevant resolution was reached at the meeting.

On 22nd September 2009, the Fifth Extraordinary Meeting in 2009 of the 5th Board of Directors in form of correspondence for voting reviewed the Proposal on the Renewal Plan of 2009/2010 D&O Liabilities Insurance. Relevant resolution was reached at the meeting.

On October 27 2009, the Sixth Extraordinary Meeting in 2009 of the 5th Board of Directors reviewed the Proposal on Creditor's Right Transfer of Pengyun Plaza Property Development (Shenzhen) Co. Ltd. Project.. Relevant resolution was reached at the meeting.

On 1st December 2009, the Seventh Extraordinary Meeting in 2009 of the 5th Board of Directors reviewed the following proposals: Proposal on the Postponement of the Election of the Sixth Board of Directors of GDB, Proposal on Continuing Regular Performance by Senior Management of GDB during the Election Postponement of the 6th Board of Directors, Proposal on Changing Registered Capital and Revising Relevant Articles of GDB's AOA, Proposal on Further Engagement of Accounting Firm for GDB Audit 2009, Proposal on Suggestions for GDB Audit System Reformation and Articles of Audit of Guangdong Development Bank, Proposal on Relevant Issues of China Life Insurance Co., Ltd. Nominating Mr. Zheng Yong as Director and Deputy President of GDB and Proposal on Convening the 2nd Extraordinary General Meeting of Shareholders of GDB in 2009. Relevant resolutions were reached at the meeting.

On 22nd December 2009, the Eighth Extraordinary Meeting in 2009 of the 5th Board of Directors in form of correspondence for voting reviewed the Proposal on Subscription of 2009 Phase II State Grid Corporation of China Corporate Bond. Relevant resolution was reached at the meeting.

2. Enforcement of General Meeting of Shareholders Resolutions by the Board of Directors

During the reported period, the Board of Directors enforced resolutions by General Meeting of Shareholders in a responsible manner, and proactively promoted relevant implementation. In line with the 2008 Profit Distribution Plan as reviewed and passed by the 2008 Annual General Meeting of Shareholders, the Board of Directors approved and enforced the Measures for Implementing 2008 Profit Distribution of Guangdong Development Bank and completed the dividend allocation within the given timeframe. Pertinent to the changes of capital stock caused thereof, the Board of Directors completed the reviewing procedures for the changes in registered capital and revision of relevant terms in the Articles of Association in line with governing provisions; in light of the resolution by the General Meeting of Shareholders, the qualification of the newly-appointed directors was submitted to CBRC for approval.

3. Responsibility Fulfillment by Independent Directors

There are three Independent Directors in the BoD, which conforms to the requirement in Articles of Association regarding the quantity of Independent Directors. The Heads of Committees of Audit, Risk Management and Connected Transaction Control, and Nomination are taken by Independent Directors. During the reported period, in line with the principle of impersonality, independence and prudence, Independent Directors have brought their specialty into play. On the basis of protecting interests of investors and stakeholders, Independent Directors attended Board meetings and specialized Committee meetings in a responsible manner, industriously performed their duties and made due contribution to the BoD's scientific decision making and continuous sound development of the Bank.

During the reported period, the attendance by Independent Directors to BoD meetings is as follows:

Name of Independent Directors	Required attendance times in 2009	Attendance in Person (times)	Attendance by Entrusting Representative (times)	Absence	Remarks
Chan Tai Loi	9	9	0	0	/
Lin Yixiang	9	8	1	0	Authorized Independent Director Chan Tai Loi to vote on his behalf in the 2nd Extraordinary Meeting in 2009 of the 5th BoD
Phee Boon Kang	9	9	0	0	/

2009 Profit Distribution Plan

KPMG Huazhen ("KPMG") appointed by the Bank has issued standard unqualified Auditor's Report regarding the Bank's financial statements for the year ended 31 December 2009 basing on the "Accounting Standards for Business Enterprises" issued in 2006. Our audited net profit for 2009 is RMB 3,387,131,286. After considering the beginning balance of undistributed profit of 2008 (RMB 2,237,438,887), and excluding the cash dividend (RMB 278,365,511) and share dividend (RMB 570,421,130), the year-end distributable profit of 2009 is RMB 4,775,783,532. According to the "Financial Regulation for Finance Enterprise" [MOF (Ministry of Finance) No.42] and after study and discussion, the Bank hereby proposes the following 2009 profit distribution plan:

Based on Article No.44 of the "Financial Regulation for Finance Enterprise", the realized net profit of the current year for the finance enterprise (offsetting the deductible loss, the same hereinafter) should be firstly transferred to the statutory surplus reserve, then to the general (risk) reserve, and finally distributed to shareholders. The Bank has followed Article No.44 to distribute net profit.

Firstly, based on Article No.44 of the "Financial Regulation for Finance Enterprise", statutory surplus reserve should be accrued by 10% of realizable net profit for the current year; and it is not compulsory when the balance of accumulated statutory surplus reserve has reached 50% of the registered capital. As our brought forward balance of statutory surplus reserve is RMB 546,567,729, which is 4.6% of the registered capital (our registered capital: RMB 11,978,843,728); the Bank has accrued RMB 338,713,129 for 2009's statutory surplus reserve basing on 10% of the audited net profit.

Secondly, based on Article No.5 of the "Regulation of the Bad Debt Provision for Finance Enterprise" [Caijin(2005) No.49], the estimated ratio of the general bad debt provision should be decided by synthetically considering all the risks the financial institution facing; and the balance of this provision normally should be not less than 1% of the balance of total risk assets. In 2009, our brought forward general provision did not exceed 1% of the ending balance of risk assets. Consequently, the general provision for 2009, RMB 938,159,461 should be accrued basing on the difference between 1% of the 2009 ending balance of the risk assets and the opening general provision balance of 2009.

Thirdly, our audited distributable profit to shareholders is RMB 3,498,910,942. After considering the regulatory guideline opinions and capital replenishment issue, the Bank suggests not to distribute profits to shareholders for the year 2009.

The above Profit Distribution Plan will be submitted to the 2009 Annual General Meeting of Shareholders of the Bank for approval.

Report of the Board of Supervisors

1. Board of Supervisors Meetings during the Reported Period

During the reported period, the Board of Supervisors altogether convened 5 meetings:

On February 23 2009, the First Meeting of the 4th Board of Supervisors was convened and reviewed the Proposal on Electing the Chairman of the 4th Board of Supervisors of Guangdong Development Bank and elected the Chairman of the 4th Board of Supervisors and affirmed the titles and membership of the committees under the Board of Supervisors.

On 18th March 2009, the Second Meeting of the 4th Board of Supervisors was convened and reviewed the following proposals: The Procedural Rules for the Board of Supervisors Meetings of Guangdong Development Bank Co., Ltd., Detailed Working Guidelines for the Nomination Committee under the Board of Supervisors of Guangdong Development Bank Co., Ltd., Detailed Working Guidelines for the Audit Committee under the Board of Supervisors of Guangdong Development Bank Co., Ltd., The 2008 Working Report of the Board of Supervisors of Guangdong Development Bank Co., Ltd. and The 2008 Profit Distribution Plan of Guangdong Development Bank Co., Ltd. Relevant resolutions were reached at the meeting. The meeting also discussed 2008 Annual Report of the Bank.

On May 12 2009, the Third Meeting of the 4th Board of Supervisors was convened and reviewed the following proposals: The Confirmation of Supplementary Issues of Rules for the Board of Supervisors and Its Specialized Committees of Guangdong Development Bank Co., Ltd. and 2008 Working Report of the 4th Board of Supervisors of Guangdong Development Bank Co., Ltd. Relevant resolutions were reached at the meeting.

In addition, the Board of Supervisors convened two special meetings by way of conference call on 16th January and 11th February 2009 to review the exit audit on Deputy President Gaurang Hattangdi. Relevant resolutions were reached at the meeting.

2. The Duty Performance by External Supervisors

The Board of Supervisors has one External Supervisor who is head of the Nomination Committee. During the reported period, the External Supervisor worked industriously and diligently and brought his specialty into play, attending Board of Supervisors and specialized committee meetings in a responsible manner. Moreover, the External Supervisor carefully studied the meeting proposals, actively collected background information concerning the proposals, reviewed various proposals in a deepened and detailed fashion and exerted himself for the effective duty performance of the Board of Supervisors.

Material Events

1. Increase or Decrease of Registered Capital

In the reported period, the Bank implemented the 2008 Annual Profit Distribution Plan, total shares increased from 11,408,422,597 to 11,978,843,727. According to the Sui Tong Yan Zi (2009) No. 0217 "Capital Verification Report" by Guangzhou Tongyi Accounting Firm on August 20, 2009, the Bank's paid-up capital was RMB 11,978,843,727.

According to "CBRC's Approval of GDB's Registered Capital Change and AOA Relevant Articles Revision" (Yin Jian Fu [2010] No. 131), CBRC agreed that the Bank's registered capital be changed from RMB11,408,422,597 to RMB11,978,843,727. The Bank will handle relevant formalities with the industrial and commercial registration authority as soon as possible.

2. Acquisition, Sales of Assets and Merger-related Issues

During the year of 2009, the Bank had sold debt assets amounting to RMB 14.32 million through open auctions, etc.

3. Material litigations, arbitrations and cases

By the end of 31st December 2009, lawsuit cases that had not got final verdict with the Bank as accuser were 1,622 pieces and its sum was RMB 4.996 billion; there were pending litigation cases and disputes with the Bank as the defendant with a total claim of about RMB 190 million, decreased RMB 180 million compared to that in 2008. The Bank had made sufficient provision for the estimated loss of the involved lawsuits according to the advice from inner and outer lawyers.

4. Material Events Concerning Custody, Guarantees, Commitments, Entrustment of Asset Management during the Reporting Period

(1) Material Custody, Contract and lease

In 2009, there were no such material events concerning custody, contracting and leasing of other companies' assets or custody, contracting and leasing of the Bank's assets by other companies, apart from the asset custody business conducted by the Bank within business scope as approved by CBRC.

(2) Material Guarantees

In 2009, there were no material guarantee events, apart from the financial guarantee business conducted by the Bank within business scope as approved by CBRC.

(3) Material Entrustment of Asset Management

In 2009, there were no material events concerning entrustment of asset management.

5. Punishment for the Commercial Banks, their Directors and/or Senior Managers by Related Regulatory and/or the Judiciary Authorities

The former Deputy President Wang Xin was detained by public security authority for being suspected in economic crime. The Seventh Extraordinary Meeting in 2009 of the 5th Board of Directors of the Bank decided to relieve Wang Xin of all his positions in the Bank.

6. Engagement and Disengagement of Public Accounting Agencies

According to the resolution by the Seventh Extraordinary Meeting in 2009 of the Fifth Board of Directors, the Bank continued to engage KPMG Huazhen accounting firm and KPMG accounting firm to audit the Bank's 2009 annual financial statements compiled in line with the 2006-issued Accounting Standards for Financial Enterprises, International Financial Reporting Standards and Generally Accepted Accounting Principle for US and issue audit report. The engagement with each firm lasts for one year.

7. Other Important Events

January 6 The Bank was awarded as the Outstanding Trade Member by China Foreign Exchange Trading System and the National Interbank Funding Center.

January 16 Salary plus Salary No.6 won the Most Popular RMB Wealth Management Product Award during the awarding ceremony for 2008 Financial Wealth Management Billboard in Beijing.

May 4 The Bank acquired the license for securities investment fund custody by approval of CSRC and CBRC.

May The Bank was officially enrolled as the member bank of TSU (Trade Service Utility under SWIFT.

June 12 The Bank and CUP co-launched the first credit card product with Chinese characters as theme, and the first card was officially preserved in the China Museum for Chinese Characters.

July 15 The Bank was honored in the list of the 2009 top 500 enterprises in China and the top 200 Chinese enterprises in terms of returns.

October 20 Changsha Branch commenced operation and officially became the 28th branch of the Bank, symbolizing the Bank has embarked upon a new development stage.

November 6 The Bank won two grand awards in the 2009 Credit Card Summit Forum co-sponsored by Southern Weekly and CUP; Hope Card was elected as the 2009 Customers' Most Favorite Public Charity Card. GDB was also the only acquiring bank that won the award; meanwhile, Guangfa Card was elected as one of the Top 10 Credit Card of the Year.

November 10 The State Administration of Foreign Exchange officially approved GDB to be the market-maker in interbank foreign exchange market.

December 3 The Bank won the 2009 China Online Banking Customer Service Provider in the press conference for the 2009 China Online Banking Annual Conference sponsored by CFCA (China Financial Certification Authority).

December 14 Tianjin Branch of the Bank was approved by CBRC to be incorporated.

December 21 The Gongbei Sub-Branch of Zhuhai Branch of the Bank won the title of 2009 Sample Unit for Standard Service in Banking Industry of China in the election hosted by the Banking Association of China.

December The Bank won the Charity and Commonweal Innovation Award in the activity of "Southern Salute - Commonweal Grand Ceremony in 2009".

December The Bank was elected as one of the 2009 Outstanding Members of Proprietarily-Operated Bond Business Settlement by China Government Securities Depository Trust and Clearing Co., Ltd.

January 2010 The Bank's "New Generation Counter Terminal System" was awarded as the Second Class Prize of the Sixth Guangdong Financial Science and Technology Progress Award, and "Paperless Credit Review System of Credit Card" was awarded as the Third Class Prize.

GDB attached great importance to implementing its corporate social responsibilities, realizing harmonious development with interest-related parties and achieving sustainable development capacity. The Bank established SME financial dedicated institution, proactively improved SME financial service and efficiency, so as to support the development of SMEs. In anniversary of Wenchun Earthquake, the Bank assembled volunteers to visit Wenchun students in Guangdong. The Bank dispatched two cadres to Xinnan Village which is one poor village in Shaoguan, Wengyuan for aiding poor peasants. Besides, the “Charity-China Tour in 2009” set sail again. Volunteers stayed at Debao, one poor area in Guangxi, to help local students for improvement of learning environment and living condition. All these love and charity have got social highly praise, and the society awarded “Charity and Commonweal Innovation Award” to the Bank.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Special Report on
2009 Internal Control and Risk Management System Assessment Report
of Guangdong Development Bank Co., Ltd.

[KPMG-A (2010) OR No.0042]

The Board of Directors of Guangdong Development Bank Co., Ltd.:

We were appointed by Guangdong Development Bank Co., Ltd. (referred to below as "the Bank") to audit its balance sheet as at 31 December 2009, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the explanatory notes to the financial statements (collectively referred to below as "the financial statements"), which were prepared in accordance with the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and the unqualified audit report was issued on 23 March 2010. The Bank's management is responsible for the preparation of the financial statements and our responsibility is to express an opinion on the financial statements based on our audit.

In accordance with the requirements of Auditing Standard for Certified Public Accountants of China No. 1211 - "Understanding the entity and its environment and assessing the risks of material misstatement", we obtain an understanding of the internal controls relevant to the entity, and internal controls relevant to the audit of the Bank's financial statements in order to assess the risks of material misstatement of the financial statements, and to plan the nature, timing, and scope of further audit procedures. As part of the audit of the financial statements, we also performed test of control procedures in accordance with the relevant requirements of Auditing Standard for Certified Public Accountants of China No. 1231 - "Procedures in response to assessed risks of material misstatement". Our understanding and testing of the Bank's internal controls as mentioned above were not performed specifically for the purpose of expressing an opinion on the internal controls and were not for the purpose of identifying any defects, fraud, or corrupt practices existing within the internal control system. The Bank is responsible for the establishment of a sound internal control system. In the course of our understanding and testing of the internal controls as mentioned above, we took into account the Bank's actual circumstance, and performed procedures including enquiry, observation, examination, walkthrough of the processing of transactions in the financial reporting information system and re-performance of procedures, that we considered necessary.

System of internal controls are subject to inherent limitations, and accordingly, financial statement misstatements may occur and not be detected due to error or fraud. In addition, any projection of the effectiveness of internal control in the future based on the result of assessment of the current internal control entails certain level of risk as changes of the circumstances may result in the inappropriateness of the internal control or weaken its compliance with internal control policies and procedures. Consequently, an internal control that is effective in the current circumstance may not guarantee its effectiveness in the future.

In accordance with the Bank's appointment and the requirements of Notice on Standardizing the Content of Annual Report of Joint Stock Commercial Banks (Yin Jian Fa [2004] No.8) issued by the China Banking Regulatory Commission, we issue the following special report on the internal control and risk management system relevant to the preparation of financial statements as described in the 2009 Internal Control and Risk Management System Assessment Report of Guangdong Development Bank Co., Ltd. which is prepared by the Bank.

We have read the 2009 Internal Control and Risk Management System Assessment Report of Guangdong Development Bank Co., Ltd. prepared by the Bank's management. Based on the work we performed, we have not identified any significant inconsistencies between the Bank's internal control and risk management system relevant to the preparation of financial statements as described in the 2009 Internal Control and Risk Management System Assessment Report of Guangdong Development Bank Co., Ltd., and our audit findings based on our audit of the Bank's above-mentioned financial statements.

This report is intended solely for the use by the Bank to prepare its 2009 annual report and should not be used for any other purposes without our prior written consent.

KPMG Huazhen

Certified Public of Accountants
Registered in the People's Republic of China

Li Wan Wei

Liang Zhong Wei

8th Floor, Office Tower E2
Oriental Plaza
1 East Chang An Avenue
Beijing 100738
China

23 March 2010

This is a translation only. In case of discrepancy, the original version in Chinese shall prevail.

KPMG

Auditors' Report

KPMG-A (2010) AR No.0192

All shareholders of Guangdong Development Bank Co. Ltd.:

We have audited the accompanying financial statements of Guangdong Development Bank Co. Ltd. ("the Bank") on pages 82 to 184, which comprise the balance sheet as at 31 December 2009, the income statement, the statement of changes in shareholders' equity, the cash flow statement for the year then ended, and notes to the financial statements.

1. Management's responsibility for the financial statements

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

2. Auditors' responsibility

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

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

3. Opinion

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

KPMG Huazhen

Certified Public of Accountants
Registered in the People's Republic of China

Li Wan Wei

8th Floor, Office Tower E2
Oriental Plaza
1 East Chang An Avenue
Beijing 100738
China

Liang Zhong Wei

23 March 2010

These financial statements have been issued in Chinese. This English translation copy is prepared for reference only. If there is any conflict of meaning between the Chinese and English versions, the Chinese version will prevail.

Guangdong Development Bank Co., Ltd.

Balance sheet

for the year ended 31 December 2009

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2009	2008
Assets			
Cash and deposits with central banks	5	**82,590,316**	63,634,498
Deposits with banks and non-bank financial institutions	6	**10,458,671**	3,785,583
Placements with banks and non-bank financial institutions	7	**8,818,421**	16,412,333
Trading financial assets	8	**1,564,846**	2,999,080
Derivative assets held for trading	9	**104,787**	156,376
Financial assets held under resale agreements	10	**90,113,168**	64,851,478
Interest receivable	11	**2,414,746**	2,612,876
Loans and advances to customers	12	**366,635,269**	298,338,237
Available-for-sale financial assets	13	**40,832,913**	39,881,607
Held-to-maturity investments	14	**41,414,743**	30,770,132
Debt securities classified as receivables	15	**5,379,100**	6,377,428
Equity investments in subsidiary	16	**4,100**	4,100
Fixed assets	17	**3,301,091**	2,969,908
Construction in progress	18	**814,428**	54,903
Intangible assets	19	**405,773**	310,976
Deferred tax assets	20	**2,611,918**	2,611,813
Other assets	21	**9,022,334**	10,244,021
Total assets		**666,486,624**	546,015,349
Liabilities and shareholders' equity			
Liabilities			
Deposits from banks and non-bank financial institutions	23	**50,819,648**	51,054,132
Placements from banks and non-bank financial institutions	24	**2,576,589**	11,863,236
Derivative liabilities held for trading	9	**74,407**	150,338
Financial assets sold under repurchase agreements	25	**32,773,870**	44,271,061
Deposits from customers	26	**543,890,399**	404,654,710
Accrued staff costs	27	**1,268,933**	1,053,583
Taxes payable	28	**1,182,521**	1,604,350
Interest payable	29	**3,929,955**	4,243,380
Provisions	30	**45,632**	47,059
Subordinated bonds	31	**5,000,000**	5,000,000
Other liabilities	32	**2,734,639**	2,471,785
Total liabilities		**644,296,593**	526,413,634

The notes on pages 91 to 184 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Balance sheet

for the year ended 31 December 2009 *(continued)*

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2009	2008
Shareholders' equity			
Share capital	33	**11,978,844**	11,408,423
Capital reserve	34	**694,524**	1,208,504
Surplus reserve	35	**885,281**	546,568
Statutory general reserve	36	**5,171,159**	4,233,000
Retained earnings	37	**3,498,911**	2,237,439
Foreign currency translation reserve		**(38,688)**	(32,219)
Total shareholders' equity		**22,190,031**	19,601,715
Total liabilities and shareholders' equity		**666,486,624**	546,015,349

These financial statements have been approved by the Board of Directors of the Bank on 23 March 2010.

Dong Jianyue
Authorised representative
(Signature and stamp)

Michael Zink
President
(Signature and stamp)

Edward Chou
Vice president and
Chief Financial Officer
(Signature and stamp)

Sun Fei
General Manager of the
Finance Department
(Signature and stamp)

Guangdong Development
Bank Co., Ltd.
(Company chop)

The notes on pages 91 to 184 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Income statement

for the year ended 31 December 2009

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2009	2008
Operating income			
Interest income		**23,169,156**	28,177,591
Interest expense		**(10,071,430)**	(12,461,113)
Net interest income	38	**13,097,726**	15,716,478
Fee and commission income		**2,220,368**	2,040,103
Fee and commission expense		**(474,018)**	(468,167)
Net fee and commission income	39	**1,746,350**	1,571,936
Investment income	40	**51,008**	268,399
(Loss) / gain arising from changes in fair value	41	**(40,869)**	39,178
Foreign exchange gain		**235,244**	102,024
Other operating income		**25,256**	12,976
Operating income		**15,114,715**	17,710,991
Operating expenses			
Business taxes and surcharges		**(1,279,897)**	(1,296,719)
Operating and administrative expenses	42	**(7,326,305)**	(6,530,295)
Allowances for asset impairment	43	**(1,465,120)**	(6,865,318)
Other operating costs		**(22,296)**	(41,503)
Operating expenses		**(10,093,618)**	(14,733,835)
Operating profit		**5,021,097**	2,977,156

The notes on pages 91 to 184 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Income statement

for the year ended 31 December 2009 *(continued)*

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2009	2008
Add: Non-operating income	44	**165,803**	194,576
Less: Non-operating expenses	45	**(175,338)**	(88,101)
Gross profit		**5,011,562**	3,083,631
Less: Income tax expense	46	**(1,624,431)**	(299,623)
Net profit		**3,387,131**	2,784,008
Other comprehensive income	47	**(520,449)**	1,187,099
Total comprehensive income		**2,866,682**	3,971,107

These financial statements have been approved by the Board of Directors of the Bank on 23 March 2010.

Dong Jianyue
Authorised representative
(Signature and stamp)

Michael Zink
President
(Signature and stamp)

Edward Chou
Vice president and
Chief Financial Officer
(Signature and stamp)

Sun Fei
General Manager of the
Finance Department
(Signature and stamp)

Guangdong Development
Bank Co., Ltd.

(Company chop)

The notes on pages 91 to 184 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Statement of Cash Flows

for the year ended 31 December 2009

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2009	2008
Cash flow from operating activities:			
Net increase in deposits from customers and from banks and non-bank financial institutions		**139,002,032**	63,784,459
Net decrease in deposits with banks		**-**	476,940
Net increase in placements from non-bank financial institutions		**-**	34,135,359
Net decrease in placements with banks and non-bank financial institutions		**15,740,318**	-
Interest and fees and commission received		**22,210,223**	31,282,190
Cash received from other operating activities		**735,698**	505,972
Sub-total of cash inflows		**177,688,271**	130,184,920
Net increase in loans and advances to customer		**(69,767,929)**	(64,405,618)
Net increase in deposits with central banks and with banks and non-bank financial institutions		**(22,600,306)**	(4,403,467)
Net increase in placements with banks and non-bank financial institutions		**-**	(31,394,851)
Net decrease in placements from non-bank financial institutions		**(20,768,464)**	-
Interest and fees and commission paid		**(10,554,429)**	(15,557,579)
Cash paid for all types of staff cost		**(3,724,701)**	(3,306,796)
Cash paid for all types of taxes		**(3,234,515)**	(3,405,162)
Cash paid for other operating activities		**(3,739,978)**	(3,257,574)
Sub-total of cash outflows		**(134,390,322)**	(125,731,047)
Net cash inflow from operating activities	48(1)	**43,297,949**	4,453,873

The notes on pages 91 to 184 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Statement of Cash Flows

for the year ended 31 December 2009 *(continued)*

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2009	2008
Cash flow from investing activities:			
Proceeds from disposal of investments		**166,161,950**	298,933,549
Dividends received		**2,966**	1,400
Interest received from debt securities		**2,593,346**	1,943,319
Net proceeds received from disposal of fixed assets and other long-term assets		**229,422**	23,472
Sub-total of cash inflows		**168,987,684**	300,901,740
Payments on acquisition of investments		**(175,690,925)**	(325,656,830)
Payments on acquisition of fixed assets, intangible assets and other long-term assets		**(1,773,007)**	(871,188)
Sub-total of cash outflows		**(177,463,932)**	(326,528,018)
Net cash outflow from investing activities		**(8,476,248)**	(25,626,278)

The notes on pages 91 to 184 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Statement of Cash Flows

for the year ended 31 December 2009 *(continued)*

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2009	2008
Cash flows from financing activities:			
Proceeds from subordinated bonds issued		**-**	5,000,000
Transaction cost paid related to subordinated bonds issued		**-**	(15,000)
Dividends and interest paid		**(561,104)**	-
Proceeds received for settlement of consideration for carved-out of non-performing assets		**2,181,838**	1,269,693
Net cash inflow from financing activities		**1,620,734**	6,254,693
Effect of foreign exchange rate changes on cash and cash equivalents		**(4,407)**	(288,334)
Net decrease / increase in cash and cash equivalents	48(2)	**36,438,028**	(15,206,046)
Add:Cash and cash equivalents at the beginning of the year		**42,393,998**	57,600,044
Cash and cash equivalents at the end of the year	48(3)	**78,832,026**	42,393,998

These financial statements have been approved by the Board of Directors of the Bank on 23 March 2010.

Dong Jianyue
Authorised representative
(Signature and stamp)

Michael Zink
President
(Signature and stamp)

Edward Chou
Vice president and
Chief Financial Officer
(Signature and stamp)

Sun Fei
General Manager of the
Finance Department
(Signature and stamp)

Guangdong Development
Bank Co., Ltd.
(Company chop)

The notes on pages 91 to 184 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Statement of changes in shareholders' equity

as at 31 December 2009

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Foreign currency Translation reserve	Retained earnings	Total
1 January 2009		11,408,423	1,208,504	546,568	4,233,000	(32,219)	2,237,439	19,601,715
Current year movements:								
1. Net profit		-	-	-	-	-	3,387,131	3,387,131
2. Other comprehensive income								
Net changes in fair value of available-for-sale financial assets								
- Fair value changes recognised in other comprehensive income		-	(388,332)	-	-	-	-	(388,332)
- Amortisation arising from reclassification to held-to-maturity investments		-	(216,387)	-	-	-	-	(216,387)
- Transfer to profit and loss on disposal		-	(1,008)	-	-	-	-	(1,008)
Income tax relating to components of other comprehensive income		-	91,747	-	-	-	-	91,747
Foreign currency translation differences		-	-	-	-	(6,469)	-	(6,469)
3. Profit appropriations	37							
- Appropriation to surplus reserve		-	-	338,713	-	-	(338,713)	-
- Appropriation to statutory general reserve		-	-	-	938,159	-	(938,159)	-
- Appropriation to shareholders - Share dividend		570,421	-	-	-	-	(570,421)	-
- Appropriation to shareholders - Cash dividend		-	-	-	-	-	(278,366)	(278,366)
31 December 2009		11,978,844	694,524	885,281	5,171,159	(38,688)	3,498,911	22,190,031

The notes on pages 91 to 184 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Statement of changes in shareholders' equity

as at 31 December 2009

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Foreign currency Translation reserve	Retained earnings	Total
31 December 2007		11,408,423	-	266,816	3,524,660	(17,052)	244,341	15,427,188
Changes in accounting policies		-	6,238	1,351	-	-	195,831	203,420
1 January 2008		11,408,423	6,238	268,167	3,524,660	(17,052)	440,172	15,630,608
Current year movements:								
1. Net profit		-	-	-	-	-	2,784,008	2,784,008
2. Other comprehensive income								
Net changes in fair value of available-for-sale financial assets								
- Fair value changes recognised in other comprehensive income		-	1,437,586	-	-	-	-	1,437,586
- Amortisation arising from reclassification to held-to-maturity investments		-	(36,013)	-	-	-	-	(36,013)
- Transfer to profit and loss on disposal		-	(74,018)	-	-	-	-	(74,018)
- Transfer to profit and loss on impairment		-	16,000	-	-	-	-	16,000
Income tax relating to components of other comprehensive income		-	(141,289)	-	-	-	-	(141,289)
Foreign currency translation differences		-	-	-	-	(15,167)	-	(15,167)
3. Profit appropriations	37							
- Appropriation to surplus reserve		-	-	278,401	-	-	(278,401)	-
- Appropriation to general reserve		-	-	-	708,340	-	(708,340)	-
31 December 2008		11,408,423	1,208,504	546,568	4,233,000	(32,219)	2,237,439	19,601,715

These financial statements have been approved by the Board of Directors of the Bank on 23 March 2010.

Dong Jianyue
Authorised representative
(Signature and stamp)

Michael Zink
President
(Signature and stamp)

Edward Chou
Vice president and
Chief Financial Officer
(Signature and stamp)

Sun Fei
General Manager of the
Finance Department
(Signature and stamp)

Guangdong Development
Bank Co., Ltd.

(Company chop)

The notes on pages 91 to 184 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Notes on the financial statements

(Expressed in thousands of Renminbi unless otherwise stated)

1 Basic information

Guangdong Development Bank Co., Ltd. ("the Bank") is a joint stock commercial bank with limited liability incorporated in Guangzhou of Guangdong Province in the People's Republic of China ("the PRC") on 8 September 1988 with the approval of the State Council and the People's Bank of China ("PBOC").

As at 31 December 2009, apart from the Head Office, the Bank has set up 28 branches in Beijing, Shanghai, Dalian, Shenyang, Zhengzhou, Nanjing, Hangzhou, Kunming, Guangzhou, Shenzhen, Dongguan, Zhuhai, Shantou, Meizhou, Huizhou, Shaoguan, Qingyuan, Zhongshan, Foshan, Jiangmen, Zhaoqing, Yangjiang, Zhanjiang, Wuhan, Maoming, Heyuan, Changsha and Macau respectively. In addition, the Bank has representative offices in Beijing and Hong Kong.

For the purpose of these financial statements, Mainland China refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC, and the Macau Special Administrative Region of the PRC. Overseas refers to countries and regions other than Mainland China.

The Bank's principal activities include the taking of deposits from the public, extension of loans, settlement, bill discounting, acting as issue and acceptance agent and underwriter for government debts and marketable securities other than shares, purchase and sale of government debts and marketable securities other than shares, issuance of credit cards, offshore business, and other Renminbi ("RMB") and foreign currency businesses approved by the PBOC and China Banking Regulatory Commission ("CBRC").

The financial statements were approved by the board of directors of the Bank on 23 March 2010.

2 Basis of preparation

The financial statements have been prepared on the basis that the Bank will continue to operate throughout the next accounting period until 31 December 2010 as a going concern.

(1) Statement of compliance

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises-Basic Standard" and 38 Specific Standards issued by the Ministry of Finance (MOF) on 15 February 2006, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred to as "Accounting Standards for Business Enterprises" or "CAS"). These financial statements present truly and completely the financial position, the results of operations and the cash flows of the Bank.

(2) Accounting year

The accounting year of the Bank is from 1 January to 31 December.

2 Basis of preparation (continued)

(3) Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost basis except that the assets and liabilities set out below:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading) (See Note 3(3))

- Available-for-sale financial assets (See Note 3(3))

(4) Functional currency and presentation currency

The Bank's functional currency is RMB. The functional currencies of overseas branches are determined in accordance with the primary economic environment in which they operate, and are translated into Renminbi for the preparation of the financial statements (see Note 3(2)(b)) These financial statements are presented in Renminbi and, unless otherwise stated, expressed in thousands of Renminbi.

3 Significant accounting policies and accounting estimates

(1) Basis of preparing combined financial statements of the Bank

The combined financial statements of the Bank are prepared based on the information from the financial statements of the Head Office and branches and other information. All significant intra-bank transactions and balances have been eliminated on combination.

(2) Translation of foreign currencies

(a) Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. Monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at the balance sheet date. The resulting exchange differences are recognised in income statement. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair value are determined; the exchange differences are recognised in the income statement, except for the differences arising from the translation of available-for-sale equity instruments, which are recognised in equity.

3 Significant accounting policies and accounting estimates (continued)

(2) Translation of foreign currencies (continued)

(b) Translation of financial statements denominated in foreign currencies

Foreign currency financial statements of overseas branches are translated into Renminbi for the preparation of financial statements. The assets and liabilities in the financial statements denominated in foreign currencies are translated into Renminbi at the spot exchange rates ruling at the balance sheet date. The income and expenses of foreign operations are translated into Renminbi with average exchange rates for the reporting year. Foreign exchange differences arising from transaction are recognised as "exchange reserve" in the shareholder's equity on the balance sheet.

(3) Financial instruments

(a) Categorisation

The Bank classifies financial instruments into different categories at inception, depending on the purposes for which the assets were acquired or the liabilities were incurred. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

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

Financial assets and financial liabilities at fair value through profit or loss include those classified as held for trading, and those designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is:

(i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(ii) 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; or

(iii) a derivative, except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract.

3 Significant accounting policies and accounting estimates *(continued)*

(3) Financial instruments *(continued)*

(a) Categorisation *(continued)*

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

Financial assets or financial liabilities are designated at fair value through profit or loss upon initial recognition when:

(i) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, and information about the Bank is reported on that basis to the Bank's key management personnel. Formal documentation has been prepared with respect to such risk management or investment strategy;

(ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement basis of the financial assets or financial liabilities; or

(iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless: the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities designated at fair value through profit or loss are presented on the balance sheet as part of "trading financial assets" and "trading financial liabilities" respectively.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than: (i) those that the Bank, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (ii) those that meet the definition of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(i) those that the Bank intends to sell immediately or in the near term, which will be classified as held for trading;

(ii) those that the Bank, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

(iii) those where the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

3 Significant accounting policies and accounting estimates *(continued)*

(3) Financial instruments *(continued)*

(a) Categorisation *(continued)*

Loans and receivables (continued)

Loans and receivables mainly comprise deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, and debt securities classified as receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as: (i) financial assets at fair value through profit or loss; (ii) held-to-maturity investments or; (iii) loans and receivables.

Other financial liabilities

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss and mainly comprise deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

(b) Derivatives and embedded derivatives

The Bank uses derivatives to hedge its exposure to foreign exchange and interest rate risks. Derivatives are recognised at fair value upon initial recognition. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability. The gain or loss on re-measurement to fair value is recognised in the income statement.

Certain derivatives are embedded into non-derivative hybrid instruments (the host contracts). The embedded derivatives are separated from the host contract and accounted for as a separate derivative when:

(i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract;

(ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement. When the embedded derivative is separated, the host contract is accounted for as a financial instrument in accordance with the accounting policies as set out in Note 3(3).

3 Significant accounting policies and accounting estimates *(continued)*

(3) Financial instruments *(continued)*

(c) Recognition and derecognition

A financial asset or financial liability is recognised in the balance sheet when the Bank becomes a party to the contractual provisions of a financial instrument.

The Bank derecognises a financial asset if the part being considered for derecognition meets one of the following conditions:

(i) the contractual rights to receive the cash flows from the financial asset expire; or

(ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Bank transfers substantially all the risks and rewards of ownership of the financial asset; or

(iii) the Bank retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Bank continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Bank has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The financial liability is derecognised only when:

(i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or

(ii) an agreement between the Bank and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

(d) Measurement

Financial assets are measured initially at fair value. For financial assets at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets, any attributable transaction costs are included in their initial costs.

3 Significant accounting policies and accounting estimates *(continued)*

(3) Financial instruments *(continued)*

(d) Measurement *(continued)*

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost with effective interest rate, while other categories of financial instruments are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal. Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment losses, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are recognised in the income statement.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in equity that are released from equity.

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or financial liability is derecognised, impaired, or through the amortisation process.

(e) Impairment

The Bank assesses at the balance sheet date the carrying amount of financial assets (except for those at fair value through profit or loss). If there is any objective evidence that a financial asset is impaired, the Bank will recognise the impairment loss in the income statement. Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

3 Significant accounting policies and accounting estimates *(continued)*

(3) Financial instruments *(continued)*

(e) Impairment *(continued)*

Objective evidence that a financial asset is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following loss event:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- 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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties;
- 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 Bank, including: adverse changes in the payment status of borrowers in the Bank, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Bank;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; or
- other objective evidence indicating there is an impairment of financial asset.

Loans and receivables and held-to-maturity investments

Individual assessment

Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate, and recognised in the income statement.

Cash flows relating to short-term loans and receivables and held-to-maturity investments are not discounted if the effect of discounting is immaterial. The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3 Significant accounting policies and accounting estimates *(continued)*

(3) Financial instruments *(continued)*

(e) Impairment *(continued)*

Loans and receivables and held-to-maturity investments (continued)

Collective assessment

Homogeneous groups of loans and advances to customers not considered individually significant and individually assessed loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis are assessed for impairment losses on a collective basis. If there is 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 financial assets, the impairment is recognised and recorded in the income statement.

For homogeneous groups of loans and advances that are not considered individually significant, the Bank adopts a flow rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions.

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss.

The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Bank operates. Impairment losses recognised on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

Collective assessment covers those loans and receivables and held-to-maturity investments that were impaired at the balance sheet date but was not individually identified as such until some time in the future. As soon as information is available to specifically identify objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of collectively assessed financial assets.

3 Significant accounting policies and accounting estimates *(continued)*

(3) Financial instruments *(continued)*

(e) Impairment *(continued)*

Impairment reversal and loan write-off

If, in a subsequent period, the amount of the impairment loss on loans and receivables and held-to-maturity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Bank determines that a loan has no reasonable prospect of recovery after the Bank has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in the income statement through impairment losses.

Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Bank has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans and advances upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan has met specific conditions by the end of the observation period of normally 6 months, with the approval from management, they would no longer be considered as impaired.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the income statement. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in the income statement.

3 Significant accounting policies and accounting estimates *(continued)*

(3) Financial instruments *(continued)*

(e) Impairment *(continued)*

Available-for-sale financial assets(continued)

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be treated in accordance with the following principles:

(i) the impairment loss on debt instruments classified as available-for-sale shall be reversed, with the amount of the reversal recognised in the income statement;

(ii) the impairment loss on equity instruments classified as available-for-sale shall not be reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in the equity; or

(iii) the impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed. The impairment losses recognised in an interim period in respect of such financial assets shall not be reversed in a subsequent period. This is the case even if no loss or a smaller loss would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates.

(f) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on quoted market prices without any deduction for transaction costs that may occur on sales or disposals. The appropriate quoted price in an active market for financial assets held or liabilities to be issued is usually the current bid price and for financial assets to be acquired or liabilities held, the asking price. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring market transactions on an arm's length basis.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include recent arm's length market transactions between knowledgeable and willing parties, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Bank selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Bank reviews the valuation techniques and tests them for validity.

When the Bank is using a valuation technique to establish the fair value of a financial instrument, the valuation technique shall whenever possibly incorporate all factors that affect the fair value of the financial instrument, including but not limit to such factors as risk-free interest rate, credit risk, exchange rate and market fluctuation.

3 Significant accounting policies and accounting estimates *(continued)*

(3) Financial instruments *(continued)*

(g) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet when the Bank has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(h) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Bank acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Bank sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements on the balance sheet. Assets held under resale agreements are not recognised and recorded as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised on the balance sheet.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(i) Equity instrument

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Company. The consideration received from the issuance of equity instruments net of transaction costs is recognised in paid-in capital (or share capital) and capital reserve. Consideration and transaction costs paid by the Company for repurchasing self-issued equity instruments are deducted from equity.

(4) Long-term equity investments

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. The investments are stated at cost less impairment losses in the balance sheet. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Bank recognises its share of the cash dividends or profit distribution declared by subsidiaries as investment income.

3 Significant accounting policies and accounting estimates *(continued)*

(5) Fixed assets

Fixed assets represent the tangible assets held by the Bank for use for operation and administrative purposes with useful lives over one year.

(a) Cost of fixed assets

Fixed assets are initially recognised at cost. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises the construction materials, direct labour costs and those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Where the individual component parts of an item of fixed asset have different useful lives or provide benefits to the Bank in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

(b) Depreciation and impairment of fixed assets

Fixed assets are depreciated after deducting the residual values (if any) using the straight-line method over their estimated useful lives. The impaired fixed assets are depreciated after deducting the accumulated provision for impairment.

The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Categories	Estimated useful life	Estimated residual value	Depreciation rate
Plants and buildings	30 - 35 years	3% - 5%	2.8% - 3.2%
Electronic equipment	5 years	3% - 5%	19% - 19.4%
Transportation and other equipment	5 years	3% - 5%	19% - 19.4%

Useful lives, residual values and depreciation methods are reviewed at at least each year-end.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 3(10).

3 Significant accounting policies and accounting estimates *(continued)*

(5) Fixed assets *(continued)*

(c) Disposal of fixed assets

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(6) Constructions in progress

Construction in progress consists of buildings under construction and cost of their attached facilities. Cost includes purchase price, cost of construction, installation and other direct costs.

The cost of constructions in progress is transferred to fixed asset when it is ready for its intended use and depreciates in accordance to relevant depreciation policy.

No depreciation is provided against construction in progress before it is ready for its intended use.

Impairment losses on construction in progress are accounted for in accordance with the accounting policies as set out in Note 3(10).

(7) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Bank. An intangible asset is measured initially at cost, and its useful life is determined according to the period over which the asset is expected to generate economic benefits for the Bank. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits.

An intangible asset with finite useful life is stated in the balance sheet at cost less accumulated amortisation and impairment losses, and its cost less impairment loss is amortised on the straight-line method over its estimated useful life.

The respective amortisation periods for such intangible assets are as follows:

	Estimated useful life
Land use rights	30 - 50 years
Software	5 years
Others	5 years

3 Significant accounting policies and accounting estimates *(continued)*

(7) Intangible assets *(continued)*

An intangible asset with indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Bank. If any evidence indicates that the intangible asset has infinite useful life, and then it need pursuant to accounting policy of intangible assets with finite useful life as described above. At the balance sheet date, the Bank doesn't have any intangible assets with indefinite useful lives.

When an intangible asset is no longer expected to be able to generate any economic benefits that will flow to the Bank, the carrying amount of the intangible asset is recognised in profit or loss for the current period.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 3(10).

(8) Long-term deferred expenses

Long term deferred expenses represent expenses of expenses which have been incurred, and amortize over a period of one year or above, including leasehold improvement expenditure on fixed assets leased and leasing fees. Long-term deferred expenses are amortized at cost less impairment loss.

Leasing fees are fees arising from operating lease of fixed assets and amortize over the period of contract on straight-line basis. Amortisation periods of other long term deferred expenses are determined based on the principle of shorter of contractual or agreement period and benefit period, and straight-line method are applied to amortisation. Deferred expenses that are not expected to generate economic benefits in the succeeding accounting period is recognised in profit or loss accounts immediately.

The amortisation periods of each class of long-term deferred expenses are as follows:

	Amortisation period
Leasehold improvement	3 - 15 years
Rental prepayment	2 - 10 years
Others	2 - 17 years

Impairment losses on long-term deferred expenses are accounted for in accordance with the accounting policies as set out in Note 3(10).

3 Significant accounting policies and accounting estimates *(continued)*

(9) Repossessed assets

In the recovery of impaired loans and advances, the Bank may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets are recognised and reported in "other assets" in the balance sheet when the Bank intended to achieve an orderly realisation of the impaired assets and the Bank is no longer seeking repayment from the borrower.

When the Bank seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets whith are included in the carrying value of repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses.

Impairment losses on repossessed assets are accounted for in accordance with the accounting policies as set out in Note 3(10).

(10) Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date to determine whether there is any indication of impairment:

- Long-term equity investment in subsidiaries
- fixed assets
- construction in progress
- intangible assets
- long-term deferred expenses
- repossessed assets

The Bank estimates the recoverable amount of assets with indication of impairment. If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Bank determines the recoverable amount of the CGU to which the asset belongs. In addition, for intangible assets with indefinite useful lives or not ready fro their intended use, the Bank estimates their recoverable amount at least each year, irrespective of whether there is any indication of impairment or not.

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Bank also considers how management monitors the Bank's operations and how management makes decisions about continuing or disposing of the Bank's assets.

3 Significant accounting policies and accounting estimates *(continued)*

(10) Impairment of non-financial assets *(continued)*

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Bank considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

(a) Impairment loss

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the income statement.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

(b) Reversing an impairment loss

An impairment loss is not reversed in subsequent periods.

(11) Operating leases

Where the Bank has the use of assets held under operating leases, payments made under the leases are charged to the income statement, using the straight-line method, over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

(12) Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Bank in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in the income statement. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values on the balance sheet.

(a) Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, the Bank has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities. The Bank makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organisations. The contributions are charged to the income statement on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

3 Significant accounting policies and accounting estimates *(continued)*

(12) Employee benefits *(continued)*

(a) Defined contribution retirement schemes *(continued)*

In addition to the statutory provision schemes, the Bank's employees have joined the annuity scheme set up by the Bank in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in the income statement when the contributions are made.

(b) Housing fund and other social insurance

In accordance with the related laws, regulations and policies of the PRC, the Bank participates in mandatory social insurance programmes, including housing fund, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance etc. The Bank makes housing fund and social insurance contributions to government agencies in proportion to each employee's salary and expenses and recognises them in the income statement on an accrual basis.

(c) Termination benefits

Where the Bank terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the income statement for the current period, when both of the following conditions are satisfied: (i) the Bank has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately; (ii) the Bank cannot unilaterally withdraw from the termination plan or the redundancy offer.

Early retirement expenses

The Bank recognises the present value of all its liabilities to employees who agreed to retire early in return for certain future payments as expenses in the income statement when the relevant staff accepts the early retirement arrangement and ceases to provide any services to the Bank. Differences arising from changes in assumptions and adjustments on welfare calculation basis are recognised in the income statement when incurred.

(13) Provisions and contingent liabilities

A provision is recognised on the balance sheet if, as the result of a past event, the Bank has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

3 Significant accounting policies and accounting estimates *(continued)*

(13) Provisions and contingent liabilities *(continued)*

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

(14) Financial guarantee issued

Financial guarantees are contracts that require the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "other liabilities". The deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. Provisions are recognised on the balance sheet if and when it becomes probable that the holder of the guarantee will call upon the Bank under the guarantee, and the amount of that claim on the Bank is expected to exceed the carrying amount of the deferred income.

(15) Fiduciary activities

The Bank's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Bank and securities investment funds, insurance companies, annuity plans and other organisations. The Bank fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance-sheet items.

The Bank conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Bank, and the Bank grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

3 Significant accounting policies and accounting estimates *(continued)*

(16) Income recognition

Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Bank, the revenue and costs can be measured reliably and the following respective conditions are met:

(a) Interest income

Interest income for financial instruments is recognised in the income statement based on effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

The effective interest basis is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. 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 instrument. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the interest rate used as discounted rate to discount future cash flows for the purpose of measuring the related impairment loss.

(b) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided. Origination or commitment fees received by the Bank which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Bank making a loan, the fee is recognised as revenue on expiry.

For proceeds obtained in related to award credits granted to bank card holders, the Bank recognises the fair value as deferred income. When those award credits are redeemed or expire, related portion of the deferred income the Bank recognised originally is transferred out and related fee and commission income will be recognised.

(c) Dividend income

Dividend income from unlisted equity investments is recognised in the income statement on the date when the Bank's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

3 Significant accounting policies and accounting estimates *(continued)*

(17) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods. Deferred tax is provided for using the balance sheet liability method, which refers to the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

At the balance sheet date, the book value of deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Bank also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

(18) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents include non-limited deposit with central banks, deposits and placements with banks and non-bank financial institution with maturity within 3 months and financial assets held under resale agreements.

(19) Dividend distribution

Proposed dividends which are declared and approved after the balance sheet date are not recognised as a liability on the balance sheet and are instead disclosed as a subsequent event after the balance sheet date in the note 55 to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

3 Significant accounting policies and accounting estimates *(continued)*

(20) Related parties

If the Bank has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Bank and one or more parties are subject to common control, joint control or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Bank is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Bank. The Bank's related parties include but are not limited to the following:

(a) the Bank's parents;
(b) the Bank's subsidiaries;
(c) enterprises that are controlled by the Bank's parents;
(d) investors that have joint control over the Bank;
(e) investors that exercise significant influence over the Bank;
(f) an associate of the Bank;
(g) a jointly controlled entity of the Bank;
(h) principal individual investors of the Bank, and close family members of such individuals;
(i) key management personnel of the Bank and close family members of such individuals;
(j) key management personnel of the Bank's parents;
(k) close family members of key management personnel of the Bank's parents; or
(l) other entities that are controlled, jointly controlled, or significantly influenced by the Bank's principal individual investors, key management personnel, or close family members of such individuals.

(21) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Bank's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Bank's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial position, results of operations 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 are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

3 Significant accounting policies and accounting estimates *(continued)*

(22) Taxation

The Bank's main applicable taxes and tax rates for business in Mainland China are as follows:
Business tax is charged at 5% on taxable income.
City construction tax is calculated as 1%-7% of business tax.
Education surcharge is calculated as 3% of business tax.
Income tax is charged at 20% or 25% of taxable income.

According to the relevant tax ruling and implementation guidance, the Bank is paying income tax with different income tax rate and different base for tax calculation in different region. Except for Shenzhen branch, the income tax rate that is applicable to the Bank is reduced from 33% to 25% effective from 1 January 2008. According to the Notice of Implementation of Income Tax Preferential Policy in Transitional Period by the State Council (Guofa [2007] No 39), the tax rate applicable to Shenzhen branch will be gradually increased to 25% in the five years from 2008 to 2012 and the tax rate for the year is 20% (2008: 18%).

Business tax is levied on loan interest income, income on disposal of financial assets, fee and commission and other operating income, but excluding revenue from transactions with financial institutions.

Taxation on overseas operations is charged according to the relevant local tax ruling.

(23) Significant accounting estimates and judgments

The preparation of financial statements in accordance with the CAS issued by the MOF requires management, base on experience and other reasonable factors under specific circumstance, to make judgement, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates and assumption are the basis of calculating the carrying amount of assets and liabilities of which the carrying amount can not be identified through other channels. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The judgements that have significant impacts on financial statements and estimates that may have significant adjustment on the coming reporting periods are as follows:

(a) Impairment losses on loans and advances, available-for-sale and held-to-maturity debt investments

The Bank reviews the portfolios of loans and advances, and available-for-sale and held to-maturity debt investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, available-for-sale or held-to-maturity debt investments. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

3 Significant accounting policies and accounting estimates *(continued)*

(23) Significant accounting estimates and judgments *(continued)*

(a) Impairment losses on loans and advances, available-for-sale and held-to-maturity debt investments *(continued)*

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flows. For impairment loss of held-to-maturity debt investment, the Bank may measure the impairment loss on the basis of the instrument's fair value using an observable market price at the measurement date. The impairment loss for an available-for-sale debt investment is the difference between the acquisition cost (net of any principal repayments and amortisation) and the fair value, less any impairment loss previously recognised in the income statement at the measurement date.

When loans and advances are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances , and adjusted on the basis of the relevant observable data that reflects current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

(b) Impairment of available-for-sale equity instruments

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Bank considers historical market volatility and share price data of the specific equity instrument as well as other factors, such as sector performance, and financial information regarding the investee.

(c) Fair value of financial instruments

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring market transactions on an arm's length basis.

For all other financial instruments the Bank determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on observable market data at the balance sheet date.

3 Significant accounting policies and accounting estimates *(continued)*

(23) Significant accounting estimates and judgments *(continued)*

(c) Fair value of financial instruments *(continued)*

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

(d) Classification of held-to-maturity investments

In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Change of the Bank in sustaining the intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes and deferred taxes

Determining income tax involves judgement on the future tax treatment of certain transactions. The Bank carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(f) Depreciation and amortisation

Fixed assets, intangible assets and land use right are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual value (if applicable). The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation is revised in the coming financial years.

3 Significant accounting policies and accounting estimates *(continued)*

(23) Significant accounting estimates and judgments *(continued)*

(g) Receivables from transfer for non-performing assets

According to the non-performing assets transfer agreement, the Bank received RMB 48.14 billion on 18 December 2006 as a part of the repayment of the receivable. The remaining RMB 10 billion will be repaid by instalment over a period of five years starting from 1 January 2007 by the Government of Guangdong Province ("the GGP") and the MOF with an annual interest rate of 2.7% of the remaining amount. The remaining receivables will be settled by the funding from the corporate income tax payment over a period of five years. In accordance with CAS (2006), the effective annual interest rate of the RMB 10 billion receivable, after taking into account the estimated future cash flow over the five years, is 2.68%. The Bank reviews management's estimations and assumption on the above future cash flow periodically, and estimates the possibility of impairment occurs.

4 Changes in accounting policies

Changes in accounting policies and their effects

(a) Description of and reasons for changes in accounting policies

In accordance with China Accounting Standards for Business Enterprises (CAS) Bulletin No. 3, newly issued by the Ministry of Finance in 2009, the Bank changed the following significant accounting policies in the current accounting year.

Presentation of the income statement

"Other comprehensive income for the year" and "Total comprehensive income for the year" are added in the income statement. "Other comprehensive income for the year" comprises items of gains or losses net of related tax effects that are not recognised in profit or loss under CAS. "Total comprehensive income for the year" represents the total amount of net profit and other comprehensive income.

The relevant comparative items have been adjusted accordingly for the above change on the presentation of the income statement, see related items in the income statement.

In addition, the presentation of investment revaluation reserve, foreign currency translation reserve, and interest income from discounted bills are changed:

- The fair value change reserve of available for sale financial assets is accounted for in capital reserve; foreign currency translation reserve is presented separately.
- Interest income from bills discounted and rediscounted is presented on net basis.

4 Changes in accounting policies *(continued)*

Changes in accounting policies and their effects (continued)

(b) Effect of changes in accounting policies on the current year financial statements

The Bank has prepared and disclosed statement of comprehensive income in accordance with China Accounting Standards for Business Enterprises (CAS) Bulletin No. 3. Changes in the presentation of the statements mentioned above have no effect on retained earnings, net profit and net assets of the 2009 financial statements. In addition, change of the presentation of investment revaluation reserve, foreign currency translation reserve, and interest income from discounted bills have no effect on retained earnings, net profit and net assets.

5 Cash and deposits with central banks

	2009	2008
Cash	**2,282,017**	2,249,273
Deposit with central banks		
- Statutory deposit reserves (i)	**62,971,660**	46,584,550
- Surplus deposit reserves (ii)	**16,997,018**	14,633,002
- Fiscal deposits	**339,621**	167,673
Total	**82,590,316**	63,634,498

(i) The Bank places statutory deposit reserve funds with the PBOC and the central bank of Macau. The statutory deposit reserve funds are not available for the Bank's daily business.

As at the balance sheet date, the statutory deposit reserve rates applicable to domestic branches of the Bank were as follows:

	2009	2008
Reserve rate for RMB deposits	**13.5%**	13.5%
Reserve rate for foreign currency deposits	**5.0%**	5.0%

The amount of statutory deposit reserve funds placed with the central bank of Macau by Macau Branch is determined by the local jurisdiction.

(ii) The balances mainly represent funds maintained with the PBOC for the purposes of clearing and other non-limited funds.

6 Deposits with banks and non-bank financial institutions

Analysed by type of financial institutions and geographical location

	2009	2008
Banks operating in mainland China	**8,546,609**	3,021,441
Other financial institutions operating in mainland China	**10,762**	14,314
Sub-total	**8,557,371**	3,035,755
Banks operating outside mainland China	**1,901,300**	749,828
Total	**10,458,671**	3,785,583

7 Placements with banks and non-bank financial institutions

Analysed by type of financial institutions and geographical location

	2009	2008
Banks operating in mainland China	**7,861,835**	11,426,311
Other financial institutions operating in mainland China	**1,260**	10,946
Sub-total	**7,863,095**	11,437,257
Banks operating outside mainland China	**956,326**	4,985,761
Total	**8,819,421**	16,423,018
Less: Allowance for impairment losses (Note 22)	**(1,000)**	(10,685)
Net balance	**8,818,421**	16,412,333

8 Trading financial assets

Debt Securities held for trading purpose

	2009	2008
Analysed by type of debt securities and geographical location		
Issued by entities in mainland China		
- Government	**-**	703,958
- PBOC bills	**873,794**	544,754
- Policy banks	**109,356**	1,065,707
- Banks and non-bank financial institutions	**538,371**	486,770
- Corporate debt securities	**-**	100,337
Issued by entities outside mainland China		
- Fund investment	**43,325**	97,554
Total	**1,564,846**	2,999,080

9 Derivative assets and liabilities held for trading

Analysed by type of derivative contracts

	2009		
	Notional amounts	Assets	Liabilities
Foreign currency instruments			
Forward and swap contracts	**9,912,343**	**104,787**	**(74,407)**

	2008		
	Notional amounts	Assets	Liabilities
Foreign currency instruments			
Forward and swap contracts	8,744,523	156,282	(150,137)
Interest rate instruments			
Interest rate swap contracts	100,000	94	(201)
Total	8,844,523	156,376	(150,338)

10 Financial assets held under resale agreements

Analysed by pledged securities held

	2009	2008
Debt securities		
- China government bonds	**12,807,500**	3,949,825
- PBOC bills	**4,074,667**	8,248,018
- Policy banks	**11,007,822**	2,404,512
- Banks and non-bank financial institutions	**7,136,953**	5,279,145
	35,026,942	19,881,500
Bills	**54,311,226**	44,669,978
Loans	**775,000**	300,000
Total	**90,113,168**	64,851,478

Analysed by type of counterparty

	2009	2008
PBOC	**3,000,000**	3,000,000
Banks	**22,047,565**	11,580,137
Non-bank financial institutions	**65,065,603**	50,271,341
Total	**90,113,168**	64,851,478

11 Interest receivable

Analysed by type of interest generating financial assets

	2009	2008
Deposits with central banks	**30,278**	26,000
Deposits with banks and non-bank financial institutions	**20,574**	1,000
Placements with banks and non-bank financial institutions	**11,415**	100,848
Financial assets held under resale agreements	**40,744**	32,851
Investment securities	**1,616,230**	1,636,806
Loans and advances to customers	**691,760**	811,877
Others	**3,745**	3,494
Total	**2,414,746**	2,612,876

12 Loans and advances to customers

(1) Analysed by nature

	2009	2008
Corporate loans and advances	**281,790,948**	192,022,231
Residential mortgage	**47,002,159**	30,603,890
Credit cards	**16,466,634**	13,451,067
Other personal loans	**8,061,965**	6,659,174
Personal loans and advances	**71,530,758**	50,714,131
Discounted bills	**27,553,313**	68,962,144
Gross loans and advances to customers	**380,875,019**	311,698,506
Less:Allowances for impairment losses (Note 22)		
- individual assessment	**(3,662,247)**	(3,746,516)
- collective assessment	**(10,577,503)**	(9,613,753)
Total	**(14,239,750)**	(13,360,269)
Loans and advances to customers, net	**366,635,269**	298,338,237

(2) Analysed by type of collateral

	2009	2008
Loans secured by monetary assets	**35,487,423**	29,312,592
Loans secured by tangible assets other than monetary assets	**134,694,894**	92,523,686
Guaranteed loans	**124,649,750**	143,412,969
Unsecured loans	**86,042,952**	46,449,259
Gross loans and advances to customers	**380,875,019**	311,698,506
Less:Allowances for impairment losses	**(14,239,750)**	(13,360,269)
Net loans and advances to customers	**366,635,269**	298,338,237

12 Loans and advances to customers *(continued)*

(3) Overdue loans and advances analysed by type of collateral and overdue period

	2009				
	Overdue between 1 day and 90 days	Overdue between 90 days and 360 days	Overdue between 360 days and three years	Overdue more than three years	Total
Loans secured by monetary assets	**78,927**	**752,653**	**106,559**	**24,490**	**962,629**
Loans secured by tangible assets other than monetary assets	**1,043,257**	**670,473**	**594,062**	**312,169**	**2,619,961**
Guaranteed loans	**394,086**	**1,340,957**	**227,955**	**20,519**	**1,983,517**
Unsecured loans	**1,946,798**	**37,430**	**135,214**	**23,317**	**2,142,759**
Total	**3,463,068**	**2,801,513**	**1,063,790**	**380,495**	**7,708,866**

	2008				
	Overdue between 1 day and 90 days	Overdue between 90 days and 360 days	Overdue between 360 days and three years	Overdue more than three years	Total
Loans secured by monetary assets	740,238	359,388	219,024	14,150	1,332,800
Loans secured by tangible assets other than monetary assets	1,576,451	1,158,070	1,126,430	34,342	3,895,293
Guaranteed loans	821,458	881,910	569,435	17,886	2,290,689
Unsecured loans	1,902,302	48,680	17,660	37	1,968,679
Total	5,040,449	2,448,048	1,932,549	66,415	9,487,461

Pledged and collateralised loans which are overdue but not impaired is as follows:

	2009	2008
Loans secured by tangible assets other than monetary assets	**1,127,596**	1,572,372
Loans secured by monetary assets	**88,182**	801,071
Total	**1,215,778**	2,373,443

12 Loans and advances to customers *(continued)*

(4) Analysed by assessment method of allowances for impairment losses

2009	Loans and advances for which allowances for impairment losses are collectively assessed	Impaired loans and advances: for which allowances for impairment losses are collectively assessed	Impaired loans and advances: for which allowances for impairment losses are individually assessed	Total	Impaired loans and advances as a % of total loans and advances (%)
Gross balances of loans and advances	**371,751,543**	**1,289,780**	**7,833,696**	**380,875,019**	**2.40**
Less:Allowances for Impairment losses	**(9,367,569)**	**(1,209,934)**	**(3,662,247)**	**(14,239,750)**	
Net balances of loans and advances	**362,383,974**	**79,846**	**4,171,449**	**366,635,269**	

2008	Loans and advances for which allowances for impairment losses are collectively assessed	Impaired loans and advances: for which allowances for impairment losses are collectively assessed	Impaired loans and advances: for which allowances for impairment losses are individually assessed	Total	Impaired loans and advances as a % of total loans and advances (%)
Gross balances of loans and advances	302,828,784	1,142,701	7,727,021	311,698,506	2.85
Less:Allowances for Impairment losses	(8,575,918)	(1,037,835)	(3,746,516)	(13,360,269)	
Net balances of loans and advances	294,252,866	104,866	3,980,505	298,338,237	

12 Loans and advances to customers *(continued)*

(4) Analysed by assessment method of allowances for impairment losses (continued)

The Bank assesses and provides for impairment allowances on loans and advances to customers in accordance with the accounting policy set out in Note 3(3)(e).

The amount of the allowance for impairment on impaired loans is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at its original effective interest rate. The source of repayment may include:

(i) Cash flows generated by the business operation of the debtor;
(ii) Cash flows generated by the business of the guarantor or other party making the repayment for the debtor;
(iii) Cash inflow from an explicit refinancing plan of the debtor;
(iv) Disposition of collateral and repossessed assets; Valuation of repossessed assets and collateral can be provided by appraisals by an international reputable valuer, an intermediate with similar qualification legitimately incorporated in PRC, by the Bank based on market price and the estimated realisable value. Evaluation of recoverable amount from disposal of repossessed assets and collateral takes into consideration of the conditions of the title, market price, the net book value of the collateral, depreciation, difficulties on disposal, disposal costs, etc; and
(v) Sale of the loan in a secondary market.

The Bank assesses the collective impairment allowance on loans and advances to natural persons (including loans and advances to sole proprietors) and corporate loans and discounted bills classified as pass and special mention:

- For loans to natural persons, the Bank uses a flow rate methodology to assess impairment on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and loss history.
- For loans to corporate loans classified as pass and special mention, the Bank classifies the loans into portfolios of similar credit risk characteristics. The collective impairment allowance is assessed after taking into account the following factors:
  (i) the flow rate analysis utilises data of not less than 4 years;
  (ii) an appropriate emergency period correlated to the similar credit risk characteristics of that loan portfolio, which shall not be less than 12 months; and
  (iii) the Bank management's assessment of inherent loss of the loan portfolio that based on current domestic and global economic and credit environment, but not yet reflected in historical experience, including consideration of factors in the regulatory environment.

12 Loans and advances to customers *(continued)*

(5) Movements of allowance for impairment losses

	2009			
	Allowances for impairment losses which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
Opening balance	(8,575,918)	(1,037,835)	(3,746,516)	(13,360,269)
Charge for the year	(791,651)	(344,779)	(1,622,603)	(2,759,033)
Release during the year	-	-	1,297,611	1,297,611
Unwinding of discount	-	-	127,001	127,001
Recoveries	-	-	(102,476)	(102,476)
Write-offs	-	172,680	384,736	557,416
Closing balance	(9,367,569)	(1,209,934)	(3,662,247)	(14,239,750)

	2008			
	Allowances for impairment losses which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
Opening balance	(3,005,597)	(894,145)	(3,941,641)	(7,841,383)
Charge for the year	(5,570,321)	(281,120)	(1,689,482)	(7,540,923)
Release during the year	-	-	862,646	862,646
Unwinding of discount	-	-	92,224	92,224
Recoveries	-	(4,587)	(21,703)	(26,290)
Write-offs	-	142,017	951,440	1,093,457
Closing balance	(8,575,918)	(1,037,835)	(3,746,516)	(13,360,269)

13 Available-for-sale financial assets

	2009	2008
Debt securities investments, measured by fair value		
Analysed by type of debt securities and geographical location		
Issued by entities in mainland China		
- Government	**1,580,001**	1,445,975
- PBOC	**19,060,111**	22,345,736
- Policy banks	**8,068,663**	4,323,254
- Banks and non-bank financial institutions	**10,952,557**	10,501,188
- Corporate	**452,703**	81,305
Issued by entities outside mainland China		
- Central bank	**25,646**	427,232
- Corporate	**546,555**	679,308
Total debt securities investments	**40,686,236**	39,803,998
Equity investments		
Unlisted equity investments		
- Measured by cost (ii)	**91,545**	45,695
- Measured by fair value	**55,132**	31,914
Total equity investments	**146,677**	77,609
Total	**40,832,913**	39,881,607

(i) When impairment of an available-for-sale investment measured at fair value occurs, any impairment loss recognised is recorded in the carrying amount directly. As at 31 December 2009, the carrying amount of available-for-sale investments measured at fair value includes financial instruments which are individually assessed to be impaired amounting to RMB 28 million (2008: RMB 28 million) with no impairment loss recognised in the income statement during the year (2008: RMB 16 million).

(ii) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses.

14 Held-to-maturity investments

Analysed by type of debt securities and geographical location

	2009	2008
Issued by entities in mainland China		
- Government	**5,968,506**	3,942,558
- Policy banks	**13,441,289**	12,474,141
- Banks and non-bank financial institutions	**19,935,277**	14,353,433
- Corporate	**2,004,598**	-
Subtotal	**41,349,670**	30,770,132
Issued by entities outside mainland China		
- Policy bank	**42,962**	-
- Corporate	**22,111**	-
Subtotal	**65,073**	-
Total	**41,414,743**	30,770,132

15 Debt securities classified as receivables

Analysed by type of debt securities and geographical location

	2009	2008
Issued by entities in mainland China		
- Government	**2,379,136**	3,377,428
- PBOC	**2,999,964**	3,000,000
Total	**5,379,100**	6,377,428

16 Equity investments in subsidiary

	2009	2008
Equity investments in unlisted subsidiary	**4,100**	4,100

A subsidiary is a company in which the Bank has the power, directly or indirectly, to control the financial and operating policies, so as to obtain benefits from their activities. As the financial position and operating results of the subsidiary do not have a significant impact on the financial statements of the Bank, they are not consolidated but are stated as long-term equity investments using the cost method and stated at cost less allowances for impairment losses at year-end in the Bank's statement of financial position.

16 Equity investments in subsidiary *(continued)*

The principal subsidiary of the Bank as at 31 December 2009 and 31 December 2008 are as follows:

Name of company	Enterprise code	Place of incorporation	Principal activities	Registered share capital	Closing balance of actual investment made by the Bank	Closing balance of substantial form of net investment	% of ownership directly and indirectly held by the Bank	% of direct and indirect voting right of the Bank
Guangdong Guangfa International Financial & Consulting Co., Ltd	61743591-X	China	Credit card and related advisory services	RMB 10,000,000	RMB 4,100,000	RMB 4,100,000	41%	41%

The financial information of the subsidiary at balance sheet date is as follows:

	2009	2008
Operating income	**260,869**	208,406
Net loss	**(101)**	(94)

Net carrying values of assets and liabilities are as follows:

	2009	2008
Total assets	**7,587**	7,416
Total liabilities	**3,184**	2,912
Total shareholders' equity	**4,403**	4,504

17 Fixed assets

	Properties and buildings	Electronic equipment	Transportation and other equipment	Total
Costs:				
1 January 2009	3,459,758	1,561,081	432,325	5,453,164
Additions	192,835	463,277	59,302	715,414
Transfer-in from CIP (Note 18)	50,547	-	-	50,547
Disposal / Retirement	(180,620)	(133,810)	(58,450)	(372,880)
31 December 2009	3,522,520	1,890,548	433,177	5,846,245
Less:Accumulated depreciation				
1 January 2009	(859,501)	(1,010,089)	(297,623)	(2,167,213)
Charge for the year	(102,182)	(173,018)	(36,765)	(311,965)
Write-offs for the year	68,616	129,007	39,899	237,522
31 December 2009	(893,067)	(1,054,100)	(294,489)	(2,241,656)
Less:Allowances for impairment				
1 January 2009	(316,043)	-	-	(316,043)
Charge for the year	(12,437)	-	-	(12,437)
Write-offs for the year	24,982	-	-	24,982
31 December 2009	(303,498)	-	-	(303,498)
Net carrying value:				
31 December 2009	2,325,955	836,448	138,688	3,301,091
31 December 2008	2,284,214	550,992	134,702	2,969,908

17 Fixed assets *(continued)*

	Properties and buildings	Electronic equipment	Transportation and other equipment	Total
Costs:				
1 January 2008	3,195,400	1,366,624	444,471	5,006,495
Additions	57,084	346,245	53,073	456,402
Transfer-in from CIP (Note 18)	233,546	-	-	233,546
Disposal / Retirement	(26,272)	(151,788)	(65,219)	(243,279)
31 December 2008	3,459,758	1,561,081	432,325	5,453,164
Less:Accumulated depreciation				
1 January 2008	(792,965)	(1,010,301)	(326,245)	(2,129,511)
Charge for the year	(83,191)	(144,888)	(32,562)	(260,641)
Write-offs for the year	16,655	145,100	61,184	222,939
31 December 2008	(859,501)	(1,010,089)	(297,623)	(2,167,213)
Less:Allowances for impairment				
1 January 2008	(305,389)	-	-	(305,389)
Charge for the year	(16,544)	-	-	(16,544)
Write-offs for the year	5,890	-	-	5,890
31 December 2008	(316,043)	-	-	(316,043)
Net carrying value:				
31 December 2008	2,284,214	550,992	134,702	2,969,908
31 December 2007	2,097,046	356,323	118,226	2,571,595

(i) As at 31 December 2009, the Bank was in the process of completing the ownership documentation of certain properties and buildings with a net carrying value of approximately RMB 598 million (2008: RMB 730 million). The management are of the opinion that the Bank is entitled to legally and effectively occupy or use the above-mentioned properties and buildings.

(ii) As at 31 December 2009, the Bank assessed the recoverable amount of certain properties and buildings and construction in progress that are considered to be impaired. Based on the assessment, the Bank reduced the net carrying value of such assets by RMB 0.30 billion (2008: RMB 0.32 billion). The estimated recoverable amounts were determined based on the fair values of the properties and buildings and construction in progress less disposal costs, with reference to the recent observable market prices for similar properties and buildings and construction in progress within the same area.

(iii) As at 31 December 2009, the net carrying value of properties and buildings under operating lease amounted to RMB 0.23 billion (2008: RMB 0.34 billion).

18 Construction in progress

	2009	2008
Cost:		
At 1 January 2009	**55,576**	243,473
Additions	**810,744**	45,649
Disposals	**(845)**	-
Transfer to fixed assets (Note 17)	**(50,547)**	(233,546)
At 31 December 2009	**814,928**	55,576
Less:Allowance for impairment		
At 1 January 2009	**(673)**	-
Charge for the year	**(250)**	(673)
Release for the year	**423**	-
At 31 December 2009	**(500)**	(673)
Net carrying value:		
At 31 December 2009	**814,428**	54,903
At 31 December 2008	**54,903**	243,473

As at 31 December 2009, the Bank was in the process of completing the ownership documentation of certain construction in progress with a net carrying value of approximately RMB 578 million (2008: RMB 51 million). The management are of the opinion that the Bank is entitled to legally and effectively occupy or use the above-mentioned land use rights.

19 Intangible assets

	Land userights	Software	Others	Total
Cost:				
1 January 2009	218,686	304,905	44,664	568,255
Increase for the year	78,626	87,664	-	166,290
Decrease for the year	(15,607)	(539)	-	(16,146)
31 December 2009	281,705	392,030	44,664	718,399
Less:Accumulated amortisation				
1 January 2009	(31,680)	(176,599)	(42,070)	(250,349)
Increase for the year	(8,272)	(50,921)	(1,258)	(60,451)
Decrease for the year	3,828	827	-	4,655
31 December 2009	(36,124)	(226,693)	(43,328)	(306,145)
Less:Allowance for impairment				
1 January 2009	(6,930)	-	-	(6,930)
Charge for the year	(2,644)	-	-	(2,644)
Release for the year	3,093	-	-	3,093
31 December 2009	(6,481)	-	-	(6,481)
Net carrying value:				
31 December 2009	239,100	165,337	1,336	405,773
31 December 2008	180,076	128,306	2,594	310,976

19 Intangible asset *(continued)*

As at 31 December 2009, the Bank was in the process of completing the ownership documentation of certain land use rights with a net carrying value of approximately RMB 7 million (2008: RMB 14 million). The management are of the opinion that the Bank is entitled to legally and effectively occupy or use the above-mentioned land use rights

	Land use rights	Software	Others	Total
Cost:				
1 January 2008	190,129	237,336	44,816	472,281
Increase for the year	30,886	76,839	-	107,725
Decrease for the year	(2,329)	(9,270)	(152)	(11,751)
31 December 2008	218,686	304,905	44,664	568,255
Less:Accumulated amortisation				
1 January 2008	(24,977)	(147,008)	(39,753)	(211,738)
Increase for the year	(7,921)	(38,860)	(2,469)	(49,250)
Decrease for the year	1,218	9,269	152	10,639
31 December 2008	(31,680)	(176,599)	(42,070)	(250,349)
Less:Allowance for impairment				
1 January 2008	(5,894)	-	-	(5,894)
Charge for the year	(1,036)	-	-	(1,036)
31 December 2008	(6,930)	-	-	(6,930)
Net carrying value:				
31 December 2008	180,076	128,306	2,594	310,976
31 December 2007	159,258	90,328	5,063	254,649

20 Deferred tax

(1) Analysed by nature

	2009	2008
Deferred tax assets	**2,669,352**	2,854,613
Deferred tax liabilities	**(57,434)**	(242,800)
Net balance	**2,611,918**	2,611,813

20 Deferred tax *(continued)*

(2) Movements of deferred tax

	2009			
	1 January 2009	**Recognised in income statement**	**Recognised in equity**	**31 December 2009**
Deferred tax asset				
- Allowances for impairment of loans and advances to customers	**2,584,003**	**(275,626)**	**-**	**2,308,377**
- Allowances for impairment of other assets	**68,514**	**90,482**	**-**	**158,996**
- Fair value change of investments and financial derivative instruments	**(92,048)**	**(24,321)**	**91,747**	**(24,622)**
- Provision for litigation	**18,772**	**(4,362)**	**-**	**14,410**
- Deferred interest income of discounted bills	**-**	**101,086**	**-**	**101,086**
- Others	**32,572**	**21,099**	**-**	**53,671**
Net balance	**2,611,813**	**(91,642)**	**91,747**	**2,611,918**

	2008			
	1 January 2008	**Recognised in income statement**	**Recognised in equity**	**31 December 2008**
Deferred tax asset				
- Allowances for impairment of loans and advances to customers	1,312,418	1,271,585	-	2,584,003
- Allowances for impairment of other assets	105,807	(37,293)	-	68,514
- Fair value change of investments and financial derivative instruments	25,490	23,751	(141,289)	(92,048)
- Provision for litigation	21,074	(2,302)	-	18,772
- Others	(68,732)	62,267	39,037	32,572
Net balance	1,396,057	1,318,008	(102,252)	2,611,813

20 Deferred tax *(continued)*

(2) Movements of deferred tax *(continued)*

(a) The above deferred tax assets represent the tax effect of the difference between accounting profit before tax and taxable income, which the management believes may bring future tax benefits to the Bank. In forming this view, the Bank's management considered the current tax legislation and actual situation, as well as prudent accounting principles.

Based on the above principles, the Bank recognises the difference between deferred tax assets at the balance sheet date of each accounting period and those at the prior balance sheet date in the current year income tax expenses.

(b) As at 31 December 2009 and 31 December 2008, the Bank had no significant amount of deductible temporary differences or deductible tax losses. The Bank also had no unrecognised deferred tax liabilities arising from taxable temporary differences which were related to the Bank's investments in subsidiaries.

21 Other assets

	Note	2009	2008
Repossessed assets	21(1)	**295,520**	84,646
Long term deferred expenditure	21(2)	**749,694**	459,567
Others	21(3)	**8,269,277**	10,017,306
Gross balances	22	**9,314,491**	10,561,519
Less:Allowances for impairment losses		**(292,157)**	(317,498)
Net balances		**9,022,334**	10,244,021

(1) Repossessed assets

Analysed by type

	2009	2008
Land	**20,764**	12,901
Properties and buildings	**268,294**	59,467
Others	**6,462**	12,278
Gross balance	**295,520**	84,646
Less:Allowances for impairment losses	**(26,430)**	(29,582)
Net balance	**269,090**	55,064

No repossessed assets was transferred to fixed asset by the Bank during the year (2008: RMB 0.35 million).

21 Other assets *(continued)*

(2) Long term deferred expenditure

	2009	2008
Lease improvement	**417,712**	319,874
Prepaid rental	**41,016**	40,399
Others	**290,966**	99,294
Total	**749,694**	459,567

(3) Others

	2009	2008
Receivables on transfer of non-performing assets (i)	**6,548,469**	8,730,307
Advances for wealth management products (ii)	**489,219**	439,683
Prepayment for purchase of fixed assets	**45,626**	212,371
Unamortised issuing costs of subordinated bonds (Note 31(iv))	**11,377**	14,091
Suspense account for clearing	**480,871**	207,816
Receivables for wealth management product	**108,690**	-
Others	**585,025**	413,038
Total	**8,269,277**	10,017,306
Less:impairment	**(265,727)**	(287,916)
Net balance	**8,003,550**	9,729,390

Analysed by aging

	2009			
	Amount	Proportion (%)	Impairment allowance	Net amount
Within 1 year (include 1 year)	**1,017,876**	**12%**	**(14,278)**	**1,003,598**
1 to 2 years (include 2 years)	**553,106**	**7%**	**(163,329)**	**389,777**
2 to 3 years (include 3 years)	**6,605,833**	**80%**	**(43,528)**	**6,562,305**
Above 3 years	**92,462**	**1%**	**(44,592)**	**47,870**
	8,269,277	**100%**	**(265,727)**	**8,003,550**

21 Other assets *(continued)*

(3) Others *(continued)*

	2008			
	Amount	Proportion (%)	Impairment allowance	Net amount
Within 1 year (include 1 year)	1,058,075	10%	(163,059)	895,016
1 to 2 years (include 2 years)	100,440	1%	(48,392)	52,048
2 to 3 years (include 3 years)	8,766,873	88%	(22,475)	8,744,398
Above 3 years	91,918	1%	(53,990)	37,928
	10,017,306	100%	(287,916)	9,729,390

(i) Receivables on transfer of non-performing assets

Receivables on transfer of non-performing assets of RMB 10 billion will be settled by the refund of the Bank's income tax payments over a period of five years from 2007 to 2011. In 2006, the Office of Finance of Guangdong Province deposited a 5-year fixed term of RMB 6 billion with the Bank to serve as the security deposit of the receivables.

According to Notice on the Policy for Guangdong Development Bank's Enterprise Income Tax, Refund after Imposture and Collective Tax Filing by Head Office [Caishui(2008)73] issued by the MOF and the State Administration of Taxation, the MOF and the Government of Guangdong Province ("GGP") set up a co-managing fund with the refundable income tax paid by the Bank, and deposit the co-managing fund at a bank account opened with the Bank to collect and utilize such co-managing fund. The fund will be deposited for five years between 1 January 2007 and 31 December 2011. Before the maturity date of the fund, if the fund accumulates to RMB 10 billion, the policy on income tax refund will be ceased; if the fund does not accumulate to RMB 10 billion as a result of the Bank's operation, the difference between 10 billion and the fund will be paid by the GGP; if the fund does not accumulate to RMB 10 billion as a result of the adjustment on State's tax policy, the MOF and the GGP will propose alternative arrangement for approval by the State Council before implementation.

The Bank has received RMB 2.18 billion of 2008's income tax refund from the co-managing account in 2009 (2008: RMB 1.27 billion).

(ii) Advances for wealth management products

Since 2007, the Bank has offered non-principal-guaranteed, floating return wealth management products to the general public and engaged trust companies to conduct designated trust investments. As the trust assets under certain of the wealth management products could not be liquidated on maturity, the Bank has made advance payments of RMB 0.49 billion to the investors as at 31 December 2009 (2008: RMB 0.44 billion) despite the Bank does not legally bear the risk on the wealth management products. The Bank has assessed the recoverable amount of the advance payments and provided allowances for impairment accordingly. The Bank is now proceeding with all the necessary legal procedures and taking actions to recover the advance.

22 Movements of allowances for impairment losses

	Note	As at 1 January	Charge for the year	Write back for the year	Unwinding of discount	Write-offs	As at 31 December
2009							
Placements with banks and non-bank financial institutions	7	**(10,685)**	**-**	**-**	**-**	**9,685**	**(1,000)**
Loans and advances to customers	12	**(13,360,269)**	**(2,759,033)**	**1,297,611**	**127,001**	**454,940**	**(14,239,750)**
Property and equipment	17	**(316,043)**	**(12,437)**	**-**	**-**	**24,982**	**(303,498)**
Construction in progress	18	**(673)**	**(250)**	**-**	**-**	**423**	**(500)**
Intangible assets	19	**(6,930)**	**(2,644)**	**-**	**-**	**3,093**	**(6,481)**
Other assets	21	**(317,498)**	**(25,306)**	**36,939**	**-**	**13,708**	**(292,157)**
Total		**(14,012,098)**	**(2,799,670)**	**1,334,550**	**127,001**	**506,831**	**(14,843,386)**

	Note	As at 1 January	Charge for the year	Write back for the year	Unwinding of discount	Write-offs	As at 31 December
2008							
Placements with banks and non-bank financial institutions	7	(10,685)	-	-	-	-	(10,685)
Loans and advances to customers	12	(7,841,383)	(7,540,923)	862,646	92,224	1,067,167	(13,360,269)
Property and equipment	17	(305,389)	(16,544)	-	-	5,890	(316,043)
Construction in progress	18	-	(673)	-	-	-	(673)
Intangible assets	19	(5,894)	(1,036)	-	-	-	(6,930)
Other assets	21	(221,882)	(184,867)	32,079	-	57,172	(317,498)
Total		(8,385,233)	(7,744,043)	894,725	92,224	1,130,229	(14,012,098)

23 Deposits from banks and non-bank financial institutions

Analysed by type of financial institutions and geographical location

	2009	2008
Banks operating in mainland China	**28,230,244**	26,146,461
Non-bank financial institutions operating in mainland China	**22,589,404**	24,907,671
Total	**50,819,648**	51,054,132

24 Placements from banks and non-bank financial institutions

Analysed by type of financial institutions and geographical location

	2009	2008
Banks operating in mainland China	**2,575,589**	11,862,236
Non-bank financial institutions operating in mainland China	**1,000**	1,000
Total	**2,576,589**	11,863,236

25 Financial assets sold under repurchase agreements

Analysed by pledged security held

	2009	2008
Debt securities		
- Government	**153,000**	80,000
- PBOC	**1,500,000**	5,812,000
- Policy banks	**3,699,500**	5,700,000
- Commercial Banks	**4,394,000**	7,390,000
Bills	**23,027,370**	24,988,838
Loans	**-**	300,223
Total	**32,773,870**	44,271,061

Analysed by counterparties

	2009	2008
Banks	**29,520,390**	43,970,838
Non-bank financial institutions	**3,253,480**	300,223
Total	**32,773,870**	44,271,061

26 Deposits from customers

	2009	2008
Demand deposits		
- Corporate customers	191,902,126	181,059,574
- Personal customers	34,456,605	40,313,859
	226,358,731	221,373,433
Time deposits (include notice deposits)		
- Corporate customers	170,483,565	73,081,369
- Personal customers	54,980,640	34,446,665
	225,464,205	107,528,034
Pledged deposits (i)	80,335,702	67,280,541
Fiscal deposits	11,171,425	8,051,449
Outward remittance and remittance payables	560,336	421,253
Total	543,890,399	404,654,710

	2009	2008
(i)Pledged deposits for		
- Acceptance	62,384,288	53,213,171
- Guarantee	3,222,064	1,423,302
- Letter of credit	1,596,840	1,336,504
- Others	13,132,510	11,307,564
	80,335,702	67,280,541

27 Accrued staff costs

	2009			
	As at 1 January	Accrued during the year	Payments made	As at 31 December
Salaries, bonuses and allowances	801,343	2,482,559	(2,348,353)	935,549
Defined contribution retirement schemes	383	288,734	(127,427)	161,690
Other social insurance and welfare	23,971	363,582	(383,809)	3,744
Housing fund	19,073	209,242	(227,831)	484
Labour union expenses and employee education expenses	37,090	65,443	(88,904)	13,629
Early retirement benefits	113,764	9,615	(20,825)	102,554
Staff termination costs	-	2,343	(2,343)	-
Outsourcing expenses	57,959	518,533	(525,209)	51,283
Total	1,053,583	3,940,051	(3,724,701)	1,268,933

27 Accrued staff costs *(continued)*

	2008			
	As at 1 January	Accrued during the year	Payments made	As at 31 December
Salaries, bonuses and allowances	610,393	2,188,691	(1,997,741)	801,343
Defined contribution retirement schemes	305	217,560	(217,482)	383
Other social insurance and welfare	71,859	361,402	(409,290)	23,971
Housing fund	15,325	161,727	(157,979)	19,073
Labour union expenses and employee education expenses	60,023	70,869	(93,802)	37,090
Early retirement benefits	120,404	16,741	(23,381)	113,764
Staff termination costs	-	3,056	(3,056)	-
Outsourcing expenses	43,696	418,328	(404,065)	57,959
Total	922,005	3,438,374	(3,306,796)	1,053,583

28 Taxes payable

	2009	2008
Income tax payable	**644,522**	1,010,135
Business tax and surcharges	**468,479**	520,674
Housing property tax	**49,159**	51,379
Others	**20,361**	22,162
Total	**1,182,521**	1,604,350

29 Interest payable

Analysed by type of financial liabilities that generate interest payables

	2009	2008
Deposits from customers	**3,640,996**	3,828,021
Deposits from banks and non-bank financial institutions	**179,799**	226,004
Subordinated bonds issued	**104,254**	104,254
Placements from banks and non-bank financial institutions	**432**	46,308
Financial assets sold under repurchase agreements	**2,313**	28,949
Others	**2,161**	9,844
Total	**3,929,955**	4,243,380

30 Provisions

Movement of provisions

	2009	2008
Opening balance	**47,059**	84,301
Charge for the year	**8,891**	38,052
Release during the year	**(979)**	(43,965)
Payments made during the year	**(9,339)**	(31,329)
Closing balance	**45,632**	47,059

As at 31 December 2009, the Bank was the defendant in certain pending litigations, with gross claims of RMB 0.19 billion (2008: RMB 0.37 billion). Based on the opinions of the Bank's internal and external lawyers, provision has been made for the estimated losses of these litigations and disputes. Management of the Bank are of the view that the provision made is reasonable and adequate.

31 Subordinated bonds

	2009	2008
Subordinated fixed interest rate bonds (i)	**4,300,000**	4,300,000
Subordinated floating interest rate bonds (ii)	**700,000**	700,000
Total	**5,000,000**	5,000,000

(i) The Bank issued 10-year subordinated fixed interest rate bonds with face value of RMB 1.6 billion on 25 July 2008. The coupon interest rate per annum is 6.3%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest rate of the bonds will increase to 9.3% per annum from the sixth year for the next five years till maturity.

The Bank issued 10-year subordinated fixed interest rate bonds with face value of RMB 2.7 billion on 23 September 2008. The coupon interest rate per annum is 5.85%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest rate of the bonds will increase to 8.85% per annum from the sixth year for the next five years till maturity.

(ii) The Bank issued 10-year subordinated floating interest rate bonds with face value RMB 0.7 billion on 25 July 2008. The coupon interest rate per annum is the one-year fixed deposit rate set by the PBOC on the annual interest re-set date, plus an interest margin of 2%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest margin of the bonds will increase by 3% per annum from the sixth year for the next five years till maturity.

(iii) The bank does not issue any subordinated bonds during 2009.

(iv) The issuing costs of the subordinated bonds amounted to RMB 15 million. The unamortised balance of RMB 11.38 million as at 31 December 2009 (2008: RMB 14.09 million) is recorded in other assets (Note 21).

32 Other liabilities

	2009	2008
Deferred interest income on discounted bills	**404,343**	828,109
Accrued expenses	**254,166**	177,028
Payables arising from the transferred non-performing assets (i)	**116,549**	120,690
Dormant accounts of deposits from customers	**138,113**	116,822
Inward Remittance	**58,597**	79,000
Payables for purchase of fixed assets	**293,488**	58,402
Payables for fund subscription	**2,256**	45,095
Loan repayments pending settlement	**14,887**	24,367
Payable to wealth management product	**108,690**	11,790
Deferred commission income	**140,993**	116,224
Suspense account for clearing	**662,406**	295,438
Dividend payable	**38,757**	19,765
Others	**501,394**	579,055
Total	**2,734,639**	2,471,785

(i) According to the non-performing assets transfer agreement with GFIHL, the risk and rewards associated with the non-performing assets were transferred to GFIHL after the transfer reference date. As at 31 December 2009, the amounts collected on behalf of GFIHL that have not yet been paid to GFIHL and recognised in other liabilities amounted to RMB 117 million (2008: RMB 121 million).

33 Share capital

	2009		2008	
	No. of share *'000*	Amount *RMB'000*	No. of share *'000*	Amount *RMB'000*
Fully paid share capital (Par value of RMB 1 each)	**11,978,844**	**11,978,844**	11,408,423	11,408,423

According to "2008 Profit Appropriation Proposal" approved by the Board of Directors meeting held on 17 March 2009, the Bank distributed share dividend of 0.5 share per 10 shares with par value of RMB 1 each, amounting to RMB 570 million. According to the "Resolution of Guangdong Development Bank Co., Ltd.'s 2008 Profit Appropriation Proposal" passed by shareholders meeting held on 12 June 2009, the Bank's share capital was increased by RMB 570 million through share dividend distribution. On 1 December 2009, the Board of Directors passed the "Resolution of Increasing Registered Capital and Revising Related Terms in the Bank's Article of Association", which approved the Bank to increase its registered capital from RMB 11,408,422,597 to RMB 11,978,843,727.

33 Share capital (continued)

Guangzhou Tongyi Certified Public Accountants have verified the share capital increase by dividend distribution, and issued related capital verification report on 20 August 2009, numbered 020200908006931. The paid-in capital of RMB 11,978,843,727 was verified. As at the reporting date, the share capital increase by dividend distribution is under the approval process of China Banking Regulatory Commission.

34 Capital Reserve

	2009	2008
Changes in fair value of available-for-sale investment	**694,524**	1,208,504

35 Surplus reserve

Statutory surplus reserve

The Bank is required to appropriate 10% of its net profit, as determined under the Company Law of the People's Republic of China, to the statutory surplus reserve until the balance reaches 50% of the registered capital. Subject to the approval of shareholders, statutory surplus reserves may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders in a general meeting. Subject to the approval of shareholders, discretionary surplus reserves may be used to make good prior year losses, if any, and may be converted into capital.

36 Statutory general reserve

Pursuant to related regulation by the MOF, the Bank is required to set aside a statutory general reserve from net profit to cover potential losses against their assets. The statutory general reserve is in principle not less than 1% of the aggregate amount of risk-bearing assets.

37 Appropriation of profits and retained earnings at the end of the year

(1) Appropriation to surplus reserve

Surplus reserve consists of statutory surplus reserve and discretionary surplus reserve.

The Bank appropriates 10% of 2009 net profit, which amounted to RMB 339 million to the statutory surplus reserve until the balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders in a general meeting.

Subject to the approval of shareholders, statutory and discretionary surplus reserves may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

(2) Dividends of ordinary shares declared during the year

Cash dividend distributed during the year

According to the approval granted by the board of directors meeting held on 17 March 2009, and the "2008 Profit Distribution Proposal" passed by shareholders meeting held on 12 June 2009, a cash dividend of RMB 278 million (2008: Nil) was declared and paid to the Company's ordinary shareholders on 5 August 2009.

(3) Dividends approved for conversion into share capital

During the year the Bank has increased its capital by 0.57 billion by ways of share distribution (Note 33).

(4) Appropriation to statutory general reserve

Pursuant to a notice, Cai Jin [2005] No.49, issued by the MOF on 17 May 2005 and which became effective on 1 July 2005, banks and certain non-bank financial institutions (including the Bank) in mainland China are required to set aside a statutory general reserve (in addition to allowances for impairment) to cover potential losses against their assets. The statutory general reserve is in principle not less than 1% of the aggregate amount of risk-bearing assets, before allowances for impairment, at the balance sheet date. The statutory general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

The MOF issued another notice, Cai Jin [2005] No. 90 on 5 September 2005. This notice requires financial institutions to set aside the statutory general reserve within a transitional period of approximately three years, but not more than five years, from 1 July 2005.

The Bank had fulfilled the requirement in accordance with the above notices and appropriated to the statutory general reserve equivalent to 1% of aggregate amount of risk-bearing assets, before allowances for impairment, at 31 December 2009, which amounted to RMB 938 million..

38 Net interest income

	2009	2008
Interest income arising from		
Deposits with central banks	**879,284**	1,015,202
Deposits with banks and non-bank financial institutions	**62,702**	41,504
Placements with banks and non-bank financial institutions	**333,455**	596,773
Financial assets held for trading	**72,945**	257,588
Financial assets held under resale agreement	**944,311**	2,831,673
Loans and advances to customers		
- Corporate loans and advances	**12,344,909**	13,611,152
- Personal loans and advances	**3,545,821**	3,702,235
- Discounted bills	**2,227,817**	3,673,648
Investment securities (ii)	**2,757,912**	2,447,816
Total interest income	**23,169,156**	28,177,591
Interest expense arising from		
Deposits from banks and non-bank financial institutions	**(1,463,650)**	(1,540,955)
Placements from banks and non-bank financial institutions	**(134,697)**	(116,500)
Financial assets sold under repurchase agreement	**(351,717)**	(1,677,242)
Deposits from customers	**(7,816,922)**	(9,021,253)
Subordinated bond issued	**(304,444)**	(105,163)
Total interest expense	**(10,071,430)**	(12,461,113)
Net interest income	**13,097,726**	15,716,478

(i) Interest income from impaired financial assets is listed as follows:

	2009	2008
Interest income arising from impaired loans and advances	**314,236**	324,216
Interest income arising from impaired available for sale financial assets	**5,376**	5,463

(ii) Investment securities represent interest income from debt securities which are not at fair value through profit or loss. Investment securities include securities classified as held-to-maturity investments, available-for-sale financial assets and debt securities classified as receivables. The interest income from investment securities is mainly derived from unlisted debt securities.

39 Net fee and commission income

	2009	2008
Fee and commission income:		
Bank card fees	**1,337,228**	1,064,890
Agency service fees	**231,432**	556,192
Remittance and settlement fees	**389,685**	339,205
Others	**262,023**	79,816
Total	**2,220,368**	2,040,103
Fee and commission expense:		
Credit card transaction fees	**(266,177)**	(224,530)
Remittance and settlement fees	**(98,448)**	(103,271)
Agency expenses	**(11,442)**	(19,791)
Others	**(97,951)**	(120,575)
Total	**(474,018)**	(468,167)
Net fee and commission income	**1,746,350**	1,571,936

40 Investment income

	2009	2008
Net gain and loss on trade of debt securities		
- Trading debt investments	**45,511**	20,749
- Available-for-sale securities investments	**2,531**	246,250
Dividend income	**2,966**	1,400
Total	**51,008**	268,399

41 (Loss) / gain arising from changes in fair value

	2009	2008
Trading financial instruments	**(65,211)**	29,196
Derivative financial instruments	**24,342**	9,982
Total	**(40,869)**	39,178

42 Operating and administrative expenses

	2009	2008
Staff costs		
- Salaries, bonuses, allowances and subsidies (i)	**2,482,559**	2,188,691
- Defined contribution retirement schemes	**288,734**	217,560
- Other social insurance and welfare	**363,582**	361,402
- Housing funds	**209,242**	161,727
- Union running costs and employee education costs	**65,443**	70,869
- Early retirement benefits	**9,615**	16,741
- Compensation to employees for termination of employment relationship	**2,343**	3,056
- Outsourcing expenses	**518,533**	418,328
	3,940,051	3,438,374
Premises and equipment expenses		
- Depreciation charges	**311,965**	260,641
- Rent and property management expenses	**544,656**	475,812
- Maintenance	**430,255**	378,138
	1,286,876	1,114,591
Amortisation expenses	**211,119**	243,509
Others	**1,888,259**	1,733,821
Total	**7,326,305**	6,530,295

(i) The amount includes the aggregate of accrued emoluments for Directors, Supervisors and Senior Management for the year ended 31 December 2009, which amounted to RMB 25 million (2008: RMB 24 million). None of the Directors, Supervisors and Senior Management received any inducements, or compensation for loss of office, or waived any emoluments during the years ended 31 December 2008 and 31 December 2009.

43 Allowance for asset impairment

	2009	2008
Loans and advances to customers	**1,461,422**	6,678,277
Available-for-sales investment securities	**-**	16,000
Fixed assets	**12,437**	16,544
Construction in progress	**250**	673
Intangible assets	**2,644**	1,036
Repossessed assets	**7,012**	(13,065)
Other assets	**(18,645)**	165,853
Total	**1,465,120**	6,865,318

44 Non-operating income

	2009	2008
Release of litigation provision	**979**	43,965
Gain on disposal of intangible assets	**19,551**	16,131
Gain on disposal of fixed assets	**54,416**	15,260
Gain on disposal of repossessed assets	**3,015**	3,791
Write back of long-term payables	**25,543**	44,994
Others	**62,299**	70,435
Total	**165,803**	194,576

45 Non-operating expenses

	2009	2008
Charge of litigation provision	**8,891**	38,052
Loss on disposal of fixed assets	**9,358**	6,984
Loss on disposal of repossessed assets	**297**	4,660
Others	**156,792**	38,405
Total	**175,338**	88,101

46 Income tax expense

	2009	2008
Income tax for the year		
- Mainland China	**1,532,382**	1,613,068
- Macau, PRC	**407**	4,563
Sub-total	**1,532,789**	1,617,631
Deferred tax (Note 20)	**91,642**	(1,318,008)
Income tax expense	**1,624,431**	299,623

46 Income tax expense *(continued)*

Reconciliation between income tax expense and income tax calculated at statutory tax rate:

	2009	2008
Profit before tax	**5,011,562**	3,083,631
Expected income tax expense at statutory tax rate of 25% (2008: 25%)	**1,252,891**	770,908
Non-deductible expenses (i)	**299,374**	79,208
Income tax adjustment for non-taxable income (ii)	**(65,501)**	(203,003)
Effect of different tax rate applicable to profit of particular location of operation (iii)	**(8,897)**	(39,131)
Non-recognised tax deductions in the prior years	**(33,984)**	(254,359)
Others	**180,548**	(54,000)
Income tax expense	**1,624,431**	299,623

(i) The amount for 2009 primarily represents staff cost in excess of the statutory deductible threshold, non-deductible entertainment expenses and assets impairment loss not approved by Tax Bureau.

(ii) These amounts primarily represent interest income from China government bonds.

(iii) According to tax legislations and detailed rules of implementation in the relevant operating location, income taxes on profits generated in different locations are payable at different tax rates and tax basis. The income tax rate for Shenzhen Special Economic Zone is 20% for the year (2008: 18%).

47 Other comprehensive income

	2009	2008
Fair value reserve (available-for-sale financial assets):		
- Net change in fair value through other comprehensive incom	**(388,332)**	1,437,586
- Amortisation arising from reclassification to held-to-maturity	**(216,387)**	(36,013)
- Transfer to profit and loss on disposal	**(1,008)**	(74,018)
- Transfer out accumulated changes in fair value on impairment	**-**	16,000
Subtotal	**(605,727)**	1,343,555
Income tax relating to components of other comprehensive income	**91,747**	(141,289)
Foreign currency translation differences for foreign operations	**(6,469)**	(15,167)
Total comprehensive income for the year	**(520,449)**	1,187,099

48 Notes to the cash flow statement

(1) Reconciliation of net profit and cash flow from operating activities:

	2009	2008
Net profit	**3,387,131**	2,784,008
Add:Provision for asset loss	**1,465,120**	6,865,318
Unwinding of discount on impairment allowance for impaired loans	**(127,001)**	(92,224)
Depreciation of fixed assets and amortisation of intangible assets and long-term deferred expenses	**523,084**	504,150
Net gain on disposal of fixed assets and other long-term assets	**(64,609)**	(23,538)
Interest income from debt securities	**(2,830,857)**	(2,705,404)
Investment income	**(51,008)**	(268,399)
Net (gain) / loss on fair value movement	**40,869**	(39,178)
Net gain arising from foreign currency dealing	**(9,640)**	(102,024)
Interest expenses on issuing subordinated bonds	**304,444**	105,163
Net decrease / (increase) of deferred tax asset	**91,642**	(1,318,008)
Increase in operating receivables	**(77,152,796)**	(100,276,419)
Increase in operating payables	**117,721,570**	99,020,428
Net cash flow from operating activities	**43,297,949**	4,453,873

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

	2009	2008
Cash balance at the end of the year	**2,282,017**	2,249,273
Less:Cash balance at the beginning of the year	**(2,249,273)**	(2,116,919)
Add:Cash equivalents at the end of the year	**76,550,009**	40,144,725
Less:Cash equivalents at the beginning of the year	**(40,144,725)**	(55,483,125)
Net increase / (decrease) in cash and cash equivalents	**36,438,028**	(15,206,046)

(3) Analysis of cash and cash equivalents

	2009	2008
Cash	**2,282,017**	2,249,273
Surplus deposit reserve with central banks	**16,997,018**	14,633,002
With original maturity with or within 3 months:		
- Deposits with banks and non-bank financial institutions	**4,410,331**	3,778,027
- Placements with banks and non-bank financial institutions	**7,132,101**	3,562,909
- Financial assets under resale agreements	**48,010,559**	18,170,787
Total	**78,832,026**	42,393,998

49 Commitments and contingent liabilities

(1) Credit commitments

Credit commitments take the form of approved loans with signed contracts and credit card limits. The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. As credit limit provided by the Bank can be withdrawn, the Bank does not expose to the credit risk from credit limit of facilities without being drawn upon, which is not included in the credit commitment.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. The Bank assesses and makes allowance for any probable losses on credit commitment periodically. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. 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.

As the facilities may expire without being drawn upon, the total of the contractual amounts set out in the following table is not representative of expected future cash outflows.

	2009	2008
Loan commitments (with an original maturity of one year or over)	**8,708,725**	1,915,831
Credit card unused overdraft limit	**29,130,743**	26,150,805
Sub-total	**37,839,468**	28,066,636
Bank acceptances	**126,199,257**	89,604,814
Letters of credit	**9,741,993**	6,675,550
Financing guarantees	**1,061,036**	716,886
Non-financing guarantees	**4,420,360**	5,048,070
Sub-total	**141,422,646**	102,045,320
Total contract value	**179,262,114**	130,111,956

(2) Capital commitments

The Bank had the following authorised capital commitments for purchasing fixed assets and intangible assets, and making leasehold improvements at the balance sheet date:

	2009	2008
Contracted for	**155,560**	295,978
Authorised but not contracted for	**423,147**	249,452
Total	**578,707**	545,430

49 Commitments and contingent liabilities *(continued)*

(3) Operating lease commitments

The Bank leases certain properties, vehicles and electronic equipment under operating lease, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. At the balance sheet date, the Bank's future minimum lease payments under non-cancellable operating leases for properties, vehicles and electronic equipment were as follows:

	2009	2008
Within one year	**466,164**	442,116
After one year but within two years	**395,660**	392,053
After two years but within three years	**336,927**	333,170
After three years but within five years	**472,254**	499,362
After five years	**537,671**	431,801
Total	**2,208,676**	2,098,502

(4) Litigations and disputes

Note 30 sets out the gross amount of claims on the Bank and the related to litigation provision at the balance sheet date, arising from litigations whereby the Bank acted as defendants.

(5) Redemption obligations

As an underwriting agent of PRC government bonds, the Bank has the responsibility to buy back those bonds should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded in the markets at the redemption date.

The redemption obligations below represent the nominal value of PRC government bonds underwritten and sold by the Bank but not yet matured at the balance sheet date:

	2009	2008
Redemption obligations	**5,538,119**	5,770,309

(6) Provision against contingent liabilities

The Bank has assessed and made provision for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with their accounting policies (Note 3(13)).

50 Pledged assets

(1) Assets pledged as security

Certain assets of the Bank have been pledged as security for the repurchase agreements (Note 25). As at 31 December 2009, the book value of the repurchase agreements amounted to RMB32.8 billion (2008: RMB 44.3 billion). All repurchased agreements are matured within 12 months from the date of transaction. The carrying value of the pledged assets is as follow:

(a) Carrying value of pledged assets analysed by asset type

	2009	2008
Government bonds	**153,000**	80,000
PBOC bills	**1,500,000**	5,812,000
Debt securities issued by policy banks	**3,699,500**	5,700,000
Debt securities issued by financial institutions	**4,394,000**	7,390,000
Discounted bills	**23,027,370**	24,988,838
Loans	**-**	300,223
Total	**32,773,870**	44,271,061

(b) Carrying value of pledged assets analysed by balance sheet classification

	2009	2008
Available-for-sale financial assets	**3,699,500**	11,312,000
Held-to-maturity investments	**6,047,000**	7,670,000
Loans and advances to customers	**23,027,370**	25,289,061
Total	**32,773,870**	44,271,061

These transactions are conducted under usual and customary terms of placements.

(2) Collateral accepted as securities for assets

The Bank conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. For the carrying amount of the financial assets held under resale agreements, please see Note 10. As at 31 December 2009, the Bank holds collaterals for resale agreements which it was permitted to sell or repledge in the absence of default for the transactions, its fair value amounted to RMB 58.6 billion (2008: RMB 51.4 billion). The Bank is obligated to return the collaterals on the promissory resale date. As at 31 December 2009, bills with carrying amount of RMB 22 billion (2008: RMB 22.6 billion) is pledged as securities under repurchase agreements. The Bank has the obligation to return the bills on maturity.

51 Entrusted lending business

The Bank provides entrusted lending business services to government agencies and corporations. All entrusted loans are made under the instruction or at the direction of these entities and are funded by entrusted funds from them. Income related to these services is included in the income statement as fee income.

Entrust assets and the corresponding liabilities are not assets and liabilities of the Bank and are not recognised in the balance sheet. However, if the amount of the entrusted loan funds is greater than that of the entrusted loans, the relevant surplus funding is accounted for as deposits from customers.

At the balance sheet date, the entrusted assets and liabilities were as follows:

	2009	2008
Entrusted loans	**15,387,922**	14,079,727
Entrusted loan funds	**(15,387,922)**	(14,079,727)

52 Operating segments

The Bank has presented the operating segments in a manner consistent with the way in which information is reported internally to the Bank's chief operating decision maker for the purposes of resource allocation and performance assessment.

Measurement of segment assets and liabilities and segment income and results is based on the Bank's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income / expense". Interest income and expense earned from third parties are referred to as "external net interest income / expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, results, assets, and liabilities are determined before intra-Bank balances and intra-Bank transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

Geographical segment

The Bank operates principally in Mainland China. Except for the Head Office, it has 28 branches in Beijing, Shanghai, Dalian, Shenyang, Zhengzhou, Nanjing, Hangzhou, Kunming, Guangzhou, Shenzhen, Dongguan, Zhuhai, Shantou, Meizhou, Huizhou, Shaoguan, Qingyuan, Zhongshan, Foshan, Jiangmen, Zhaoqing, Yangjiang, Zhanjiang, Wuhan, Maoming, Heyuan, Changsha and Macau respectively. In addition, the Bank has representative offices in Beijing and Hong Kong.

52 Operating segments *(continued)*

Geographical segment (continued)

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate in the income. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Operating segments of the Bank, as defined for management reporting purposes, are defined as follows:

- "Yangtze River Delta" refers to the following areas serviced by branches of the Bank: Shanghai Municipality, Jiangsu Province and Zhejiang Province;
- "Pearl River Delta" refers to the following areas serviced by the branches of the Bank: Guangdong Province;
- "Bohai Rim" refers to the following areas serviced by branches of the Bank: Beijing Municipality, Liaoning Province and Heilongjiang Province;
- "Central and Western" region refers to the following areas serviced by branches of the Bank: Henan Province, Hubei Province, Hunan Province, and Yunnan Province;
- Head Office; and
- Overseas.

	2009						
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	Total
External net interest income	2,144,195	2,315,759	1,003,561	1,453,435	6,148,526	32,250	13,097,726
Internal net interest income / (expense)	1,109,414	1,826,608	855,337	313,394	(4,108,578)	3,825	-
Net interest income	3,253,609	4,142,367	1,858,898	1,766,829	2,039,948	36,075	13,097,726
Net fee and commission income	224,963	257,279	102,883	112,750	1,038,625	9,850	1,746,350
Investment income	-	-	-	-	49,284	1,724	51,008
(Loss) / gain arising from changes in fair value	1,224	(374)	628	(101)	(42,246)	-	(40,869)
Foreign exchange gain / (loss)	38,542	129,042	56,089	10,175	(644)	2,040	235,244
Other operating income	1,430	20,329	2,449	396	301	351	25,256
Operating income	3,519,768	4,548,643	2,020,947	1,890,049	3,085,268	50,040	15,114,715
Business taxes and surcharges	(312,385)	(310,385)	(181,646)	(151,457)	(324,024)	-	(1,279,897)
Operating and administrative expenses	(1,258,691)	(2,601,778)	(1,045,270)	(732,846)	(1,649,768)	(37,952)	(7,326,305)
Allowances for asset impairment	(382,519)	1,094,156	335,870	74,392	(2,587,019)	-	(1,465,120)
Other operating cost	(482)	(442)	(9,260)	(209)	(530)	(11,373)	(22,296)
Operating expenses	(1,954,077)	(1,818,449)	(900,306)	(810,120)	(4,561,341)	(49,325)	(10,093,618)
Operating profit	1,565,691	2,730,194	1,120,641	1,079,929	(1,476,073)	715	5,021,097
Add:Non-operating income	3,765	134,352	3,021	1,447	19,103	4,115	165,803
Less:Non-operating expenses	(15,233)	(62,396)	(25,464)	(5,522)	(66,596)	(127)	(175,338)
Gross profit	1,554,223	2,802,150	1,098,198	1,075,854	(1,523,566)	4,703	5,011,562
Capital expenditure	323,752	654,436	198,205	213,056	15,717	496,240	1,901,406
Depreciation and amortisation	51,950	216,177	71,877	39,413	143,382	285	523,084

52 Operating segments *(continued)*

Geographical segment (continued)

	2008						
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	Total
External net interest income	2,648,793	4,057,122	1,901,445	1,552,557	5,493,232	63,329	15,716,478
Internal net interest income / (expense)	844,190	1,728,077	456,681	80,597	(3,118,326)	8,781	-
Net interest income	3,492,983	5,785,199	2,358,126	1,633,154	2,374,906	72,110	15,716,478
Net fee and commission income	313,789	276,142	88,805	69,342	816,376	7,482	1,571,936
Investment income	-	-	-	-	247,488	20,911	268,399
Gain arising from changes in fair value	775	2,297	3,882	114	32,110	-	39,178
Foreign exchange gain / (loss)	68,142	155,987	66,144	16,655	(203,467)	(1,437)	102,024
Other operating income	1,024	8,320	2,577	206	454	395	12,976
Operating income	3,876,713	6,227,945	2,519,534	1,719,471	3,267,867	99,461	17,710,991
Business taxes and surcharges	(401,198)	(382,061)	(207,503)	(141,873)	(164,084)	-	(1,296,719)
Operating and administrative expenses	(1,099,666)	(2,406,253)	(938,915)	(586,988)	(1,446,230)	(52,243)	(6,530,295)
Allowances for asset impairment	(913,349)	(639,662)	(41,508)	(77,258)	(5,193,541)	-	(6,865,318)
Other operating cost	(4,834)	(5,157)	(30,279)	(699)	15,933	(16,467)	(41,503)
Operating expenses	(2,419,047)	(3,433,133)	(1,218,205)	(806,818)	(6,787,922)	(68,710)	(14,733,835)
Operating profit	1,457,666	2,794,812	1,301,329	912,653	(3,520,055)	30,751	2,977,156
Add: Non-operating income	1,961	155,884	12,472	5,532	13,361	5,366	194,576
Less: Non-operating expenses	6,455	(53,992)	(14,672)	(8,560)	(17,284)	(48)	(88,101)
Gross profit	1,466,082	2,896,704	1,299,129	909,625	(3,523,978)	36,069	3,083,631
Capital expenditure	114,084	304,362	92,088	42,378	3,278	227,175	783,365
Depreciation and amortisation	47,660	174,231	57,261	35,819	185,161	4,018	504,150

	2009						
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	Total
Segment assets	**172,171,339**	**215,132,447**	**118,934,697**	**87,460,136**	**279,667,131**	**3,869,798**	**877,235,548**
Elimination							**(210,748,924)**
Total assets							**666,486,624**
Segment liabilities	**(168,905,327)**	**(209,909,973)**	**(116,563,940)**	**(84,686,129)**	**(271,241,608)**	**(3,738,540)**	**(855,045,517)**
Elimination							**210,748,924**
Total liabilities							**(644,296,593)**

52 Operating segments (continued)

Geographical segment (continued)

	2008						
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	Total
Segment assets	128,135,504	188,876,677	98,124,932	65,417,516	221,101,777	3,524,171	705,180,577
Elimination							(159,165,228)
Total assets							546,015,349
Segment liabilities	(125,033,063)	(183,425,888)	(95,668,667)	(62,893,688)	(215,127,570)	(3,429,986)	(685,578,862)
Elimination							159,165,228
Total liabilities							(526,413,634)

53 Risk management

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Banks exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The board of directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board of directors has established the Risk Management and Related Party Transaction Management Committee, which is responsible for supervision on work of the Bank's senior management personnel in managing credit risk, market risk and operational risk; conducting periodic assessments of risk management of the Bank and risk tolerance; reviewing the Bank's internal control system, and providing their opinions in relation to further improvements to the risk management and internal control; evaluating working procedure and impression of internal audit department; reviewing the financial report and disclosure of accounting information; reviewing material related party transactions; managing related party transactions and risk control.

To identify, evaluate, monitor and manage risk, the Bank has designed a comprehensive governance framework, internal control policies and procedures. The Chief Risk Officer is responsible for the Bank's overall risk management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and standardised and procedural management, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

53 Risk management *(continued)*

Risk management framework *(continued)*

The Bank identified the responsibilities of internal departments about monitoring financial risks: the Credit Management Department ("the CMD") and Credit Approval Department ("the CAD") respond about monitoring credit risk, the CMD is also respond on monitoring market risk; the CMD and Finance Department is responsible for liquidity risk of the Bank. The broad of directors authorised to set up the Market Risk Management Committee under the management, to enhance monitoring on market risk. The Internal Control and Compliance Committee of Head Office is responsible for coordinating all departments to manage operational risk, with the Compliance Department taking the role as leading department. The CMD of the Head Office is responsible for building a comprehensive risk management framework, summarising and reporting the result of credit risk, market risk and operational risk assessment of the Bank to CFO directly.

(1) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Bank. It arises primarily from the Bank's credit asset portfolios.

The Bank classifies the loans into five categories based on their credit risk, which are pass, special mention, substandard, doubtful and loss, and loans in the substandard, doubtful and loss categories are considered as NPLs. The definitions of these five categories are as follows:

Pass:	The debtors can honour their obligations under the loan contract. There is no reason to doubt their ability to repay the principal and interest in full on a timely basis.
Special mention:	The debtors are able to service their loans currently. However there are adverse factors by which repayment may be adversely affected.
Substandard:	The debtors' abilities to service their loans are in question, and they are unable to repay the principal and interest in full with the operating income generated from the normal course of business. Losses may incur even when the guarantees are invoked.
Doubtful:	The debtors cannot repay the principal and interest in full and significant losses will incur even when the guarantees are invoked.
Loss:	Only a small portion of or none of the principal and interest can be recovered even after taking all possible measures and exhausting all legal remedies.

To classify the categories of loans, the following factors will generally be considered:

- Basic information, including usage of loans, sources of repayment, turnover of assets, and records of repayment;
- Repayment ability of debtor, including cash flow of debtors and financial position analysis;
- Guarantee for loans; and
- Other non-financial factors affecting the possibility of repayment, such as willing of debtor's repayment, legislation of loan repayment and conditioning of credit management.

53 Risk management *(continued)*

(1) Credit risk *(continued)*

To classify loans as NPLs, the following factors will generally be considered:

- Misappropriation of the source of planned repayment of the loan; delay to repay the principle amount and loan interests; fail to repay restructured loan; fail to repay the judgement debt or significant default in repayment of loan interests; no significant improvement of repayment conditions;
- The debtor experiences significant financial difficulties, such as material cash flow problems; significant difficulties in liquidity, operation and acquiring new capital; the debtor's normal income from its business is lower than prospective prediction; the financial position deteriorated or in a deteriorating trend, substantial decline in repayment ability; debt continues to grow, and can not be repaid on schedule;
- The debtor has to repay from realising pledge or collateral due to the normal income from debtor's business is impossible to repay the principle and interest of loan; the debtor is unable to repay the principal or interest and other related costs after realised pledges, loss might incur even when the guarantee invoked; the guarantor is unable to repay the loans; collateral procedure might incur a legal dispute, which results in large losses; and
- Internal management problem of debtor is not resolved or involved in economic dispute litigations; corporation representative or management have been prosecuted, arrested, or wanted by police which may cause losses of the business; the debtor is unable to repay judgement debt and impede the repayment on time; the debtor deceives loans through inappropriate approaches such as hiding the facts; the debtor fails to repay loans or reach an agreement with the Bank during the courses of, merger, separation, contracting, leasing, restructuring to joint-venture.

Concentration of credit risk: when a certain number of customers conduct the same operating activities, or are situated in the same geographical location or their industries have similar economic characteristics, their ability to honour their contracts would be influenced by the same economic change. Concentration of credit risk reflects the sensitivity of the Bank's results to a specific industry or geographical location. In 2009, the Bank establishes the target of credit assets limit management by industrial and credit limits regarding to the principle of credit assets portfolio management. The principal place of business of the Bank is the PRC. However, as the PRC is with a vast territory, the level of economic development differs among regions (e.g. some regions are designated by the central government as special economic zones to attract investment). As a result, the risks among regions differ.

To identify, evaluate, monitor and manage credit risk, the Bank designs reporting structure, credit policies and processes required for effective credit risk management and implements systematic control procedures. As approved by the Board of Directors, the Bank optimises its credit approval process, in which both management and control of credit risks are reinforced while function and responsibilities of credit approval section are further specified. Chief Risk Officer is responsible for all the operations regarding the Bank's risk management, and also leading the Credit Approval Committee to formulate the credit policies, management framework and marketing strategies from time to time, to analyse the development of lending businesses and the level of risk management, and to approve loans with amounts not exceeding the authorised limit in accordance with relevant rules, regulations and monetary policies in the PRC and the Bank's business strategy. To mitigate risk, the Bank may obtain collaterals and guarantees from customers where appropriate.

53 Risk management *(continued)*

(1) Credit risk *(continued)*

With respect to daily operations, the CMD is responsible for the management of risk controls of the overall credit policies, operation and management of credit businesses, establishment of credit system and authorisation to subordinated units. Being a standing body of the Head Office's Credit Policy Committee, the Credit Review Department reviews and approves various credit businesses applied, reported to and filed within authority granted by the Bank.

With respect to the credit risk management of corporate and institutional business, the Bank refines the industry-specific guideline and credit policy baseline for credit approval, improving policies of credit client acceptance and decline, and optimizing its economic capital management and credit risk limit management, which leading to the improvement in asset quality. The Bank manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the personal credit business, the Bank relies on credit assessment of applicants as the basis for loan approval. Assessment on the income level, credit history, and repayment ability of the applicant is required. The Bank monitors borrowers' repayment ability, the status of collateral and any changes to collateral's status and value. Once a loan becomes overdue, the Bank starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, where appropriate, the Bank requests customers to provide collateral and guarantees. It also sets guidelines as to the use and suitability of specific types of collateral. Collateral structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

In respect of the loan portfolio, the Bank adopts a risk based loan classification methodology. The Bank classifies the loans into five categories, with more detailed classification on performing loans. The loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses are classified as impaired loans and advances. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

53 Risk management *(continued)*

(1) Credit risk *(continued)*

(a) Maximum exposure

Maximum exposure to credit risk at the balance sheet date without taking consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	2009	2008
Deposits with central banks	**80,308,299**	61,385,225
Deposits with banks and non-bank financial institutions	**10,458,671**	3,785,583
Placements with banks and non-bank financial institutions	**8,818,421**	16,412,333
Trading financial assets	**1,564,846**	2,999,080
Derivative assets held for trading	**104,787**	156,376
Financial assets held under resale agreements	**90,113,168**	64,851,478
Interest receivable	**2,414,746**	2,612,876
Loans and advances to customers	**366,635,269**	298,338,237
Available-for-sale debt securities	**40,686,236**	39,803,998
Held-to-maturity investments	**41,414,743**	30,770,132
Debt securities classified as receivables	**5,379,100**	6,377,428
Others	**7,992,173**	9,715,299
Sub-total	**655,890,459**	537,208,045
Loan commitments and other credit related commitments	**37,839,468**	28,066,636
Financial guarantees and other credit related contingent liabilities	**141,422,646**	102,045,320
Sub-total	**179,262,114**	130,111,956
Maximum exposure to credit risk	**835,152,573**	667,320,001

53 Risk management *(continued)*

(1) Credit risk *(continued)*

(b) Analysis of loans and advances by credit quality

2009							
	Impaired loans and advances forwhich allowances for impairment losses are individually assessed	Impaired loans and advances forwhich allowances for impairment losses are collectively assessed	Overdue but not impaired			Not overdue and not impaired	Total
			Less than 90 days	90-180 days	over 180 days		
Gross balances	7,833,696	1,289,780	3,611,127	121,663	64,263	367,954,490	380,875,019
Less:Allowances for impairment losses	(3,662,247)	(1,209,934)	(224,239)	(7,272)	(3,699)	(9,132,359)	(14,239,750)
Net balances	4,171,449	79,846	3,386,888	114,391	60,564	358,822,131	366,635,269

2008							
	Impaired loans and advances forwhich allowances for impairment losses are individually assessed	Impaired loans and advances forwhich allowances for impairment losses are collectively assessed	Overdue but not impaired			Not overdue and not impaired	Total
			Less than 90 days	90-180 days	over 180 days		
Gross balances	7,727,021	1,142,701	4,732,972	783,774	826,784	296,485,254	311,698,506
Less:Allowances for impairment losses	(3,746,516)	(1,037,835)	(306,023)	(50,677)	(53,458)	(8,165,760)	(13,360,269)
Net balances	3,980,505	104,866	4,426,949	733,097	773,326	288,319,494	298,338,237

The fair values of collaterals for impaired corporate loans, and overdue but not impaired corporate loans at the balance sheet date are as follows:

Fair values of collaterals for impaired corporate loans as at balance sheet date:

	2009	2008
Land, properties and buildings	2,128,955	2,294,567
Other assets	1,024,440	857,129
Total	3,153,395	3,151,696

53 Risk management *(continued)*

(1) Credit risk *(continued)*

(b) Analysis of loans and advances by credit quality *(continued)*

Fair values of collaterals for overdue but not impaired corporate loans as at balance sheet date:

	2009	2008
Land, properties and buildings	890,310	982,388
Other assets	77,938	947,592
Total	968,248	1,929,980

(c) Analysis of loans and advances by business sector

	2009			2008		
	Gross balance	%	Collateralised loans as a % of gross loan balances	Gross balance	%	Collateralised loans as a % of gross loan balances
Corporate loans						
- Manufacturing	80,624,208	21.17	32	60,427,548	19.39	32
- Wholesale and retail	53,220,534	13.97	32	38,167,253	12.25	35
- Energy and raw materials	49,539,478	13.01	15	16,082,883	5.16	9
- Transportation	19,048,232	5.00	7	13,707,018	4.40	14
- Property	27,687,751	7.27	65	16,347,974	5.24	64
- Tourism and service sector	14,730,888	3.87	16	9,317,377	2.99	33
- Construction and installation	12,466,043	3.27	28	12,060,430	3.87	28
- Securities and investment management	5,952,307	1.56	3	2,104,565	0.68	3
- Postal and telecommunication services	2,993,118	0.79	34	2,099,325	0.67	35
- Others	15,528,389	4.08	29	21,707,858	6.96	20
Total corporate loans	281,790,948	73.99	29	192,022,231	61.61	30
Total personal loans	71,530,758	18.78	74	50,714,131	16.27	68
Sub-total	353,321,706	92.77	38	242,736,362	77.88	38
Discounted bills	27,553,313	7.23	-	68,962,144	22.12	-
Gross balances of loans and advances	380,875,019	100.00	35	311,698,506	100.00	30
Less:Allowances for impairment	(14,239,750)			(13,360,269)		
Net balances of loans and advances	366,635,269			298,338,237		

53 Risk management *(continued)*

(1) Credit risk *(continued)*

(d) Analysis by geographical sector

	2009			2008		
	Gross balance	%	Collateralised loans as a % of gross loan balances	Gross balance	%	Collateralised loans as a % of gross loan balances
Guangzhou	**51,954,157**	**13.64**	**25**	69,149,940	22.18	11
Beijing	**50,197,958**	**13.18**	**22**	31,248,516	10.03	14
Hangzhou	**44,708,246**	**11.74**	**39**	38,739,714	12.43	42
Nanjing	**36,399,393**	**9.56**	**33**	24,837,045	7.97	32
Zhengzhou	**28,617,608**	**7.51**	**25**	19,439,467	6.24	21
Shanghai	**28,098,897**	**7.38**	**35**	18,434,861	5.91	34
Dongguan	**19,946,702**	**5.24**	**59**	18,959,838	6.08	56
Shenzhen	**17,026,068**	**4.47**	**49**	15,987,620	5.13	40
Foshan	**16,735,900**	**4.39**	**32**	10,752,103	3.45	30
Shenyang	**15,091,100**	**3.96**	**44**	12,085,074	3.87	28
Kunming	**14,603,072**	**3.83**	**21**	7,375,149	2.37	19
Others	**57,495,918**	**15.10**	**48**	44,689,179	14.34	46
Gross balances of loans and advances	**380,875,019**	**100.00**	**35**	311,698,506	100.00	30
Less:Allowances for impairment	**(14,239,750)**			(13,360,269)		
Net balances of loans and advances	**366,635,269**			298,338,237		

53 Risk management *(continued)*

(1) Credit risk *(continued)*

(e) Analysis of deposits with banks and financial institutions, money market placements, and balance under resale agreements by credit quality

2009					
	Impaired assets for which allowances for impairment losses are individually assessed	Not overdue and not impaired			
	Money market placements	Deposits with banks and financial institutions	Money market placements	Balances under resale agreements	Total
Gross balances	1,000	10,458,671	8,818,421	90,113,168	109,391,260
Less:Allowance for impairment losses	(1,000)	-	-	-	(1,000)
Net balances	-	10,458,671	8,818,421	90,113,168	109,390,260

2008					
	Impaired assets for which allowances for impairment losses are individually assessed	Not overdue and not impaired			
	Money market placements	Deposits with banks and financial institutions	Money market placements	Balances under resale agreements	Total
Gross balances	10,685	3,785,583	16,412,333	64,851,478	85,060,079
Less:Allowance for impairment losses	(10,685)	-	-	-	(10,685)
Net balances	-	3,785,583	16,412,333	64,851,478	85,049,394

53 Risk management *(continued)*

(1) Credit risk *(continued)*

(f) Analysis of debt securities investment by credit quality

The Bank adopts a credit rating approach to manage the risk of debt securities portfolio held by the operations in mainland China. Debt securities are rated with reference to Bloomberg Composite, or major rating agencies where the issuers of the securities are located. The carrying amount of debt securities analysed by the rating agency designations at the balance sheet date are as follows:

	2009	2008
Individually assessed and impaired gross amount	**68,282**	68,346
Allowances for impairment losses	**(40,657)**	(40,775)
Sub-total	**27,625**	27,571
Bloomberg Composite		
- AAA	**-**	25,269
- AA- to AA+	**64,954**	74,930
- A- to A+	**202,700**	136,516
- lower than A-	**359,674**	512,575
Sub-total	**627,328**	749,290
Agency ratings		
- AAA	**87,307,889**	79,073,440
- AA- to AA+	**629,265**	-
- A- to A+	**452,818**	100,337
Sub-total	**88,389,972**	79,173,777
Total	**89,044,925**	79,950,638

(2) Market risk

Market risk is the risk of potential loss for the Bank arising from adverse movements of market price (such as interest rates, foreign exchange rates, commodity price, stock price and other price). The market risk of the Bank primarily arises from interest risk of various assets and liabilities related business and products with the Bank's participation in market activities.

The Bank has established a framework of market risk management in accordance with the Guidance on Market Risk Management of Commercial Banks promulgated by the CBRC. With the approval of the Board of Directors, the Bank has established a special Risk Management Committee, which is directly responsible for overall market risk management. The Bank nominates a Chief Risk Officer to establish, periodically review and monitor policies, procedures and detailed operational regulations of credit management and evaluate comprehensive market risk management. The department of market risk management is responsible for managing and monitoring market risk, and reporting to senior management and Risk Management Committee independently.

53 Risk management *(continued)*

(2) Market risk *(continued)*

The Bank's risk control methods includes, to identify, measure and monitor market risk through a long period of monitoring, exposure analysis, sensitivity analysis, and scenario analysis; to set up market risk limiting system in trading department, which mainly consists of interest sensitivity indicators, and to monitor the usage status of market risk limits. By performing deliberation procedures on new products and complicated transactional business, the Bank will ensure that market risks of new business will be identified and assessed as early as possible. The Bank executed the pressure test for market risk in accordance with CBRC's requirements under prudent condition. The Bank has applied new asset-liability management information system in order to manage the items on the assets and liabilities, including bank accounts and trading accounts.

(a) Interest rate risk management

Interest rate risk is the likelihood of loss that may arise from movements in market interest rate. The Bank predicts interest rate risk exposure by studying future interest rate movements with various macro economic indicators, and predicts future funding movements and trends within the Bank by referring to the Bank's funding costs, capital adequacy ratios, growth of loans and deposits and other factors, so as to study the interest rate risk appetite of the Bank.

The Bank mainly manages interest rate risks with asset portfolio. Asset portfolio aims at diversifying risks and improves profitability with diversification of assets.

At present the RMB interest rate risk mainly represents risk arising from interest rate policy fluctuations and interest sensitive assets and liabilities mismatch. Interest rate risk control focuses on treasury business. The Bank's main RMB interest rate risk management are:

(i) Interest rate trend expectation. The Bank closely reviews the interest rate policies to identify the interest rate risks in order to justify interest rate risk limit and the control of risk exposure;
(ii) Constraint of investment trade by risk benchmark. This is followed by regular reassessment;
(iii) Modification of investment portfolio and financing structure on the market expectation;
(iv) Establishment of authorisation limit on RMB deposit and loan interest rate system; and
(v) Establishment of assets and liabilities management and internal transfer pricing system and control interest rate risk exposure by various financial tools. In the respect of foreign currency, the funding rate has been basically market oriented, with various tools of interest rate risk management.

The interest rate risk management of the Bank mainly includes:

(i) Interest rate risk measurement. Currently, the Bank has realized the precise measurement of interest rate risk for Head Office treasury and investment. The independent middle process of market risk management has commenced timely monitoring on open interest rate risk. The interest rate risk management system for deposit and loans accounts, i.e. Asset-Liability Management System is in already used.

53 Risk management *(continued)*

(2) Market risk *(continued)*

(a) Interest rate risk management*(continued)*

The interest rate risk management of the Bank mainly includes:*(continued)*

(ii) Ascertaining the interest rate risk quota, i.e. adopting the appropriate open interest rate according to the transaction development and affordability of the Bank; and

(iii) The judgment of staffs that are responsible for operation on the trend of interest rate of international major currencies is reflected in Head Office's treasury and investment portfolio. The long term foreign currency loan balance of the Bank is small. The increased foreign currency loan business mainly consists of trade finance, and the terms do not exceed 1 year, which is nearly equivalent with the period of foreign currency capital.

The Bank uses sensitivity analysis to measure the potential effect of changes in interest rates on the Bank's net profit and equity. The following table sets forth the results of the Bank's interest rate sensitivity analysis on the assets and liabilities with an assumption that all other variables held constant.

	Sensitivity of net profit		Sensitivity of equity	
	2009	**2008**	**2009**	**2008**
Change in basis points				
+100 basis points	**(287,894)**	(212,913)	**(142,644)**	(222,317)
- 100 basis points	**287,894**	212,913	**142,644**	222,317

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Bank's assets and liabilities within a year, on annualised net profit and equity. The analysis is based on the following assumptions:

(i) All assets and liabilities that reprice are due within one year reprice or are due at the beginning of the respective periods;

(ii) There is a parallel shift in the yield curve and in interest rates; and

(iii) There are no other changes to the portfolio.

Actual changes in the Bank's net interest income resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

The sensitivity of the net profit is the effect of the assumed changes in interest rates on the net interest income, based on the financial assets and financial liabilities held at year end subject to re-pricing within the coming year and the fair value change on fixed income trading securities.

53 Risk management *(continued)*

(2) Market risk *(continued)*

(a) Interest rate risk management*(continued)*

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at year end for the effects of the assumed changes in interest rates.

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in net profit and equity based on the projected yield curve scenarios and the Bank's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of this interest rate risk. The projections above also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net profit and equity of some rates changing while others remain unchanged.

The following tables indicate the effective interest rates for the Bank's financial assets and financial liabilities for the year and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities at the balance sheet date:

				2009			
	(i) Effective interest rate	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Assets							
Cash and balances with central banks	1.45%	2,621,638	79,968,678	-	-	-	82,590,316
Amounts due from banks and financial institutions	1.79%	-	16,450,712	2,758,098	68,282	-	19,277,092
Financial assets held under resale agreements	1.77%	-	60,600,148	29,513,020	-	-	90,113,168
Loans and advances to customers	5.21%	-	138,934,270	227,689,972	11,027	-	366,635,269
Investments	2.99%	150,777	15,630,707	35,985,699	33,826,037	3,602,482	89,195,702
Others	N/A	11,715,098	196,779	214,728	6,548,472	-	18,675,077
Total assets		14,487,513	311,781,294	296,161,517	40,453,818	3,602,482	666,486,624
Liabilities							
Amounts due to banks and financial institutions	2.36%	-	(41,596,237)	-	(11,800,000)	-	(53,396,237)
Financial assets sold under repurchase agreements	1.23%	-	(24,227,713)	(8,546,157)	-	-	(32,773,870)
Deposits of customers	1.66%	(560,336)	(330,068,276)	(150,276,241)	(59,239,300)	(3,746,246)	(543,890,399)
Subordinated bonds	6.11%	-	-	(700,000)	(4,300,000)	-	(5,000,000)
Others	N/A	(8,719,026)	(302,336)	(214,725)	-	-	(9,236,087)
Total liabilities		(9,279,362)	(396,194,562)	(159,737,123)	(75,339,300)	(3,746,246)	(644,296,593)
Liquidity gap		5,208,151	(84,413,268)	136,424,394	(34,885,482)	(143,764)	22,190,031

53 Risk management *(continued)*

(2) Market risk *(continued)*

(a) Interest rate risk management *(continued)*

	2008						
	(i) Effective interest rate	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Assets							
Cash and balances with central banks	1.75%	2,416,946	61,217,552	-	-	-	63,634,498
Amounts due from banks and financial institutions	3.60%	881,165	14,946,180	4,370,571	-	-	20,197,916
Financial assets held under resale agreements	4.30%	-	60,520,800	4,330,678	-	-	64,851,478
Loans and advances to customers	7.91%	-	120,344,519	177,978,562	406	14,750	298,338,237
Investments	4.47%	81,709	12,941,483	30,354,276	32,682,035	3,972,844	80,032,347
Others	2.68%	10,097,454	70,112	63,000	8,730,307	-	18,960,873
Total assets		13,477,274	270,040,646	217,097,087	41,412,748	3,987,594	546,015,349
Liabilities							
Amounts due to banks and financial institutions	3.17%	-	(40,017,368)	(9,100,000)	(13,800,000)	-	(62,917,368)
Financial assets sold under repurchase agreements	4.17%	-	(42,911,061)	(1,360,000)	-	-	(44,271,061)
Deposits of customers	2.32%	(421,253)	(266,538,779)	(97,622,535)	(39,568,936)	(503,207)	(404,654,710)
Subordinated bonds	6.11%	-	-	(700,000)	(4,300,000)	-	(5,000,000)
Others	N/A	(9,570,495)	-	-	-	-	(9,570,495)
Total liabilities		(9,991,748)	(349,467,208)	(108,782,535)	(57,668,936)	(503,207)	(526,413,634)
Liquidity gap		3,485,526	(79,426,562)	108,314,552	(16,256,188)	3,484,387	19,601,715

(i) Effective interest rate represents the ratio of interest income / expense to average interest bearing assets / liabilities.

(b) Foreign exchange risk concentration analysis

The Bank's reporting currency is the Renminbi. Some transactions involve the U.S. dollar and Hong Kong dollar and few of other currency transactions. The Bank's currency risk comprises exposures that arise from foreign currency portfolio originated from daily treasury business and loan and advance to customer, balance from financial institutions, investment and deposits from customers.

53 Risk management *(continued)*

(2) Market risk *(continued)*

(b) Foreign exchange risk concentration analysis *(continued)*

The currency risks of the trading book include the risks arising from foreign currency transactions on behalf of the customers and the corresponding squared transactions, as well as proprietary short term foreign exchange transactions. The Bank manages the currency risk mainly by imposing quota on the transaction (including the quota on the exposure and stop loss). The Bank evaluates the currency risk with quarterly pressure test. The retail foreign exchange businesses are operated on an automated trading system. The Bank can monitor the exposure timely. The treatment of transactions and risk management system in the Head office of the Bank are able to measure and monitor the currency position created by various transactions timely. Besides, the Bank manages its currency risk through matching the spot and forward transaction in foreign currency of financial assets and paired liabilities, and manages its foreign currency assets liabilities profolio and structured position with using derivative appropriately such as FX swap contracts and FX interest rate swap.

The Bank uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Bank's net profit and loss and equity. The following table sets forth, as at balance sheet date, the results of the Bank's exchange rates sensitivity analysis on the assets and liabilities at the same date with an assumption that all other variables held constant.

	Sensitivity of net profit		Sensitivity of equity	
	2009	**2008**	**2009**	**2008**
Change in foreign currency exchange rate				
Appreciation against RMB by 1%	**18,800**	19,500	**4,419**	4,084
Depreciation against RMB by 1%	**(18,800)**	(19,500)	**(4,419)**	(4,084)

The analysis is based on the following assumptions:

(i) the foreign exchange sensitivity is the gain and loss recognised as a result of 100 basis points fluctuation in the foreign currency exchange rates against RMB at the reporting date;

(ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously; and

(iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options.

The sensitivity analysis on net profit illustrates the potential impact of an appreciation of RMB against other foreign currencies based on the net foreign exchange exposure and the fair value change on RMB foreign exchange derivative.

53 Risk management *(continued)*

(2) Market risk *(continued)*

(b) Foreign exchange risk concentration analysis *(continued)*

The effects on equity are based on the exchange differences of off-shore financial statement booked by foreign currency convert to RMB and the exchange differences of non-monetary available-for-sale equity convert to RMB.

Sensitivity analysis is based on the static structure of exchange rate of assets and liabilities as above, but it is not taken into account that the Bank might adopt strategies of eliminating negative effects on profits from foreign currency position. Therefore, the estimation of above may be different with the actual situation.

The Bank's currency exposure at the balance sheet date was as follows:

	2009				
	RMB	USD *(RMB equivalent)*	HKD *(RMB equivalent)*	Others *(RMB equivalent)*	Total
Assets					
Cash and balances with central banks	81,851,783	457,103	167,088	114,342	82,590,316
Amounts due from banks and financial institutions	12,925,225	3,945,101	1,531,296	875,470	19,277,092
Financial assets held under resale agreements	90,113,168	-	-	-	90,113,168
Loans and advances to customers	357,117,868	6,855,881	2,198,020	463,500	366,635,269
Investments	88,254,925	915,131	-	25,646	89,195,702
Others	18,046,534	475,329	12,164	141,050	18,675,077
Total assets	648,309,503	12,648,545	3,908,568	1,620,008	666,486,624
Liabilities					
Amounts due to banks and financial institutions	(52,357,483)	(634,296)	(404,458)	-	(53,396,237)
Financial assets sold under repurchase agreements	(32,773,870)	-	-	-	(32,773,870)
Deposits from customers	(528,502,086)	(9,880,215)	(4,151,402)	(1,356,696)	(543,890,399)
Subordinated bonds	(5,000,000)	-	-	-	(5,000,000)
Others	(8,432,673)	(466,283)	(154,182)	(182,949)	(9,236,087)
Total liabilities	(627,066,112)	(10,980,794)	(4,710,042)	(1,539,645)	(644,296,593)
Net position of assets / (liabilities)	21,243,391	1,667,751	(801,474)	80,363	22,190,031
Net notional amount of exchange rate derivatives					
Forward purchase	3,158,643	4,897,292	1,126,539	716,745	9,899,219
Forward sale	(4,591,019)	(4,047,676)	(392,955)	(837,794)	(9,869,444)
	(1,432,376)	849,616	733,584	(121,049)	29,775

53 Risk management *(continued)*

(2) Market risk *(continued)*

(b) Foreign exchange risk concentration analysis *(continued)*

	2008				
	RMB	**USD** *(RMB equivalent)*	**HKD** *(RMB equivalent)*	**Others** *(RMB equivalent)*	**Total**
Assets					
Cash and balances with central banks	62,769,883	543,828	236,534	84,253	63,634,498
Amounts due from banks and financial institutions	11,924,486	5,858,506	1,572,919	842,005	20,197,916
Financial assets held under resale agreements	64,851,478	-	-	-	64,851,478
Loans and advances to customers	292,446,275	4,438,137	1,386,641	67,184	298,338,237
Investments	78,828,253	774,216	2,646	427,232	80,032,347
Others	18,800,393	75,243	14,797	70,440	18,960,873
Total assets	529,620,768	11,689,930	3,213,537	1,491,114	546,015,349
Liabilities					
Amounts due to banks and financial institutions	(62,329,872)	(357,460)	(152,831)	(77,205)	(62,917,368)
Financial assets sold under repurchase agreements	(44,271,061)	-	-	-	(44,271,061)
Deposits from customers	(391,847,500)	(7,890,470)	(3,684,138)	(1,232,602)	(404,654,710)
Subordinated bonds	(5,000,000)	-	-	-	(5,000,000)
Others	(9,163,168)	(181,574)	(158,061)	(67,692)	(9,570,495)
Total liabilities	(512,611,601)	(8,429,504)	(3,995,030)	(1,377,499)	(526,413,634)
Net position of assets / (liabilities)	17,009,167	3,260,426	(781,493)	113,615	19,601,715
Net notional amount of exchange rate derivatives					
Forward purchase	2,786,165	3,527,465	1,270,007	1,255,711	8,839,348
Forward sale	(2,978,658)	(4,354,317)	(286,629)	(1,215,377)	(8,834,981)
	(192,493)	(826,852)	983,378	40,334	4,367

53 Risk management (continued)

(3) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties with reasonable cost in meeting demands associated with its due payables, new granted loans and reasonable financing that can be settled by financial assets.

The Bank carries out the juridical person management principle on liquidity risk management. The Head Office supervises the liquidity risk of the whole bank, and the management is carried out from top to down and on a hierarchy management sequence. At the Head Office level, liquidity is managed and coordinated by the Assets and Liabilities Management Committee. The Assets and Liabilities Management Committee is responsible for formulation of liquidity policies in accordance with the regulatory requirements and monthly supervision of the liquidity risk ratio. It authorizes the Treasury Department to manage the liquidity of RMB and foreign currency in order to ensure the efficient management of liquidity. The liquidity policies for the Bank include: projecting the fund inflow and outflows according to the market to maintain adequacy of the fund; supervising the liquidity ratio such as the proportion of fund and the changed structure of cash and other interest generating assets to fulfill the need of future liquidity requirement; establishing the multi-layer liquidity barrier; establishing sound foundation of liability business, increasing the proportion of core deposit to maintain the good financing ability; building sound credit risk management; establishing the liquidity risk warning system and emergency plan; execute periodic pressure test of liquidity risk to identify the indicators which might bring up liquidity risk.

(a) Maturity analysis

The following tables provide an analysis of the assets and liabilities of the Bank based on the remaining periods to repayment at the balance sheet date:

	2009						
	Undated	Overdue/ repayable on demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Assets:							
Cash and deposits with central bank	63,311,280	19,279,036	-	-	-	-	82,590,316
Due from banks and financial institutions	-	3,210,986	13,239,726	2,758,098	68,282	-	19,277,092
Financial assets held under resale agreements	-	-	60,600,147	29,513,021	-	-	90,113,168
Loans and advances to customer (i)	2,455,078	16,114,157	55,106,342	151,260,511	74,139,276	67,559,905	366,635,269
Investments							
- Trading debt securities	-	-	-	389,673	1,175,173	-	1,564,846
- Available-for-sale financial assets	146,677	-	6,806,692	17,107,098	15,794,422	978,024	40,832,913
- Held-to-maturity investments	-	-	1,680,265	5,936,126	28,044,106	5,754,246	41,414,743
- Debt securities classified as receivables	-	-	195,563	3,982,326	1,201,211	-	5,379,100
- Investments in subsidiaries	4,100	-	-	-	-	-	4,100
Other assets	8,151,994	528,739	1,658,806	1,577,304	6,757,547	687	18,675,077
Total assets	74,069,129	39,132,918	139,287,541	212,524,157	127,180,017	74,292,862	666,486,624

(i) "Undated" for loans and advances are the loans of which the principal is overdue for more than 1 month, and it is disclosed with net value measured at cost less impairment losses.

53 Risk management *(continued)*

(3) Liquidity risk *(continued)*

(a) Maturity analysis *(continued)*

	2009						
	Undated	Overdue/ repayable on demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Liabilities:							
Due to banks and financial institutions	-	(17,656,260)	(23,939,977)	-	(11,800,000)	-	(53,396,237)
Financial assets sold under repurchase agreements	-	-	(24,227,713)	(8,546,157)	-	-	(32,773,870)
Deposits from customers	-	(247,187,372)	(83,441,240)	(150,276,241)	(59,239,300)	(3,746,246)	(543,890,399)
Subordinated bonds	-	-	-	-	(5,000,000)	-	(5,000,000)
Other liabilities	-	(829,439)	(5,665,769)	(1,977,986)	(704,719)	(58,174)	(9,236,087)
Total liabilities	-	(265,673,071)	(137,274,699)	(160,800,384)	(76,744,019)	(3,804,420)	(644,296,593)
Long / (short) position	74,069,129	(226,540,153)	2,012,842	51,723,773	50,435,998	70,488,442	22,190,031
Notional amounts of derivative							
- Foreign currency contracts	-	-	4,806,919	5,104,388	1,036	-	9,912,343

	2008						
	Undated	Overdue/ repayable on demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Assets:							
Cash and deposits with central bank	46,752,223	16,882,275	-	-	-	-	63,634,498
Due from banks and financial institutions	-	3,368,212	12,459,133	4,370,571	-	-	20,197,916
Financial assets held under resale agreements	-	-	60,520,800	4,330,678	-	-	64,851,478
Loans and advances to customer (i)	4,728,573	13,646,362	58,920,727	158,123,077	28,375,040	34,544,458	298,338,237
Investments							
- Trading debt securities	-	-	34,172	1,580,099	1,115,536	269,273	2,999,080
- Available-for-sale financial assets	77,609	-	3,367,665	11,451,627	24,211,009	773,697	39,881,607
- Held-to-maturity investments	-	-	-	-	23,736,871	7,033,261	30,770,132
- Debt securities classified as receivables	-	-	351,806	1,219,266	4,806,356	-	6,377,428
- Investments in subsidiaries	4,100	-	-	-	-	-	4,100
Other assets	7,185,480	297,814	1,400,275	1,174,617	8,901,245	1,442	18,960,873
Total assets	58,747,985	34,194,663	137,054,578	182,249,935	91,146,057	42,622,131	546,015,349

(i) ”Undated” for loans and advances are the loans of which the principal is overdue for more than 1 month, and it is disclosed with net value measured at cost less impairment losses.

53 Risk management *(continued)*

(3) Liquidity risk *(continued)*

(a) Maturity analysis *(continued)*

	2008						
	Undated	Overdue/ repayable on demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Liabilities:							
Due to banks and financial institutions	-	(29,649,132)	(10,368,236)	(9,100,000)	(13,800,000)	-	(62,917,368)
Financial assets sold under repurchase agreements	-	-	(42,911,061)	(1,360,000)	-	-	(44,271,061)
Deposits from customers	-	(200,457,471)	(66,502,561)	(97,622,535)	(39,568,936)	(503,207)	(404,654,710)
Subordinated bonds	-	-	-	-	(5,000,000)	-	(5,000,000)
Other liabilities	(784,422)	(698,056)	(4,413,029)	(3,160,664)	(514,324)	-	(9,570,495)
Total liabilities	(784,422)	(230,804,659)	(124,194,887)	(111,243,199)	(58,883,260)	(503,207)	(526,413,634)
Long / (short) position	57,963,563	(196,609,996)	12,859,691	71,006,736	32,262,797	42,118,924	19,601,715
Notional amounts of derivative							
- Interest rate contracts	-	-	20,000	80,000	-	-	100,000
- Foreign currency contracts	-	-	4,128,082	4,616,441	-	-	8,744,523

(b) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets and liabilities of the Bank at the balance sheet date. The Bank's expected cash flows on these instruments may vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stablely increasing balance.

53 Risk management *(continued)*

(3) Liquidity risk *(continued)*

(b) Contractual undiscounted cash flow *(continued)*

2009	Carrying amount	Gross nominal inflow / (outflow)	Undated	Overdue/ repayment on demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Non-derivative cash flow:								
Assets:								
Cash and balances with central bank	82,590,316	82,590,316	63,311,280	19,279,036	-	-	-	-
Deposits and placements with banks and financial institutions	19,277,092	19,348,349	-	3,210,986	13,277,654	2,790,811	68,898	-
Financial assets held under resale agreements	90,113,168	90,521,001	-	-	60,705,740	29,815,261	-	-
Loans and advances to customer	366,635,269	406,563,231	2,505,435	16,114,164	55,479,619	156,143,554	88,021,236	88,299,223
Investments								
- Trading debt securities	1,564,846	1,634,187	-	-	31,565	410,831	1,191,791	-
- Available-for-sale financial assets	40,832,913	42,567,530	146,677	-	7,159,652	17,914,721	16,258,031	1,088,449
- Held-to-maturity investments	41,414,743	46,878,567	-	-	1,891,901	6,730,886	31,822,224	6,433,556
- Debt securities classified as receivables	5,379,100	5,846,007	-	-	223,013	4,218,583	1,404,411	-
- Investments in subsidiaries	4,100	4,100	4,100	-	-	-	-	-
Other financial assets	10,418,296	10,719,367	-	528,739	1,595,489	1,719,014	6,875,438	687
Total assets	658,229,843	706,672,655	65,967,492	39,132,925	140,364,633	219,743,661	145,642,029	95,821,915

2009	Carrying amount	Gross nominal inflow / (outflow)	Undated	Overdue/ repayment on demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Non-derivative cash flow:								
Liabilities:								
Deposits and placements from banks and financial institutions	(53,396,237)	(54,629,845)	-	(17,655,260)	(24,078,578)	(340,710)	(12,555,297)	-
Financial assets sold under repurchase agreements	(32,773,870)	(32,798,686)	-	-	(24,243,651)	(8,555,035)	-	-
Due to customers	(543,890,399)	(548,586,535)	-	(247,187,372)	(83,557,445)	(151,702,944)	(62,079,493)	(4,059,281)
Subordinated bonds	(5,000,000)	(6,206,920)	-	-	-	(301,730)	(5,905,190)	-
Other financial liabilities	(9,161,680)	(9,166,573)	-	(829,439)	(5,623,589)	(1,950,652)	(704,719)	(58,174)
Total liabilities	(644,222,186)	(651,388,559)	-	(265,672,071)	(137,503,263)	(162,851,071)	(81,244,699)	(4,117,455)
Derivative cash flow:								
Derivative financial instruments settled on gross basis								
- Total inflow		9,898,540	-	-	4,807,596	5,089,908	1,036	-
- Total outflow		(9,868,691)	-	-	(4,785,771)	(5,081,888)	(1,032)	-
		29,849	-	-	21,825	8,020	4	-

53 Risk management (continued)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

	2008							
	Carrying amount	Gross nominal inflow / (outflow)	Undated	Overdue/ repayment on demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Non-derivative cash flow:								
Assets:								
Cash and balances with central bank	63,634,498	63,634,498	46,752,223	16,882,275	-	-	-	-
Deposits and placements with banks and financial institutions	20,197,916	20,470,564	-	3,368,212	12,548,747	4,553,605	-	-
Financial assets held under resale agreements	64,851,478	65,193,636	-	-	60,759,984	4,433,652	-	-
Loans and advances to customer	298,338,237	327,018,179	4,746,179	13,648,876	59,453,012	164,946,141	35,485,716	48,738,255
Investments								
- Trading debt securities	2,999,080	3,192,163	-	-	41,179	1,667,400	1,180,711	302,873
- Available-for-sale financial assets	39,881,607	41,960,704	77,609	-	3,739,701	12,538,871	24,773,032	831,491
- Held-to-maturity investments	30,770,132	35,805,577	-	-	241,654	1,084,816	26,784,163	7,694,944
- Debt securities classified as receivables	6,377,428	7,079,284	-	-	515,348	1,346,777	5,217,159	-
- Investments in subsidiaries	4,100	4,100	4,100	-	-	-	-	-
Other assets	12,342,266	12,872,701	297,814	566,872	1,400,280	1,410,340	9,195,953	1,442
Total assets	539,396,742	577,231,406	51,877,925	34,466,235	138,699,905	191,981,602	102,636,734	57,569,005

	2008							
	Carrying amount	Gross nominal inflow / (outflow)	Undated	Overdue/ repayment on demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Non-derivative cash flow:								
Liabilities:								
Deposits and placements from banks and financial institutions	(62,917,368)	(65,171,178)	-	(29,649,132)	(10,566,040)	(9,713,164)	(15,242,842)	-
Financial assets sold under repurchase agreements	(44,271,061)	(44,355,523)	-	-	(42,933,956)	(1,421,567)	-	-
Deposits from customers	(404,654,710)	(409,109,595)	-	(200,457,471)	(66,930,440)	(98,815,936)	(42,343,939)	(561,809)
Subordinated bonds	(5,000,000)	(6,508,650)	-	-	-	(301,730)	(6,206,920)	-
Other financial liabilities	(9,420,157)	(9,420,157)	(634,084)	(698,056)	(4,413,029)	(3,160,664)	(514,324)	-
Total liabilities	(526,263,296)	(534,565,103)	(634,084)	(230,804,659)	(124,843,465)	(113,413,061)	(64,308,025)	(561,809)
Derivative cash flow:								
Derivative financial instruments settled on net basis		(107)	-	-	(107)	-	-	-
Derivative financial instruments settled on gross basis								
- Total inflow		8,738,733	-	-	4,172,565	4,566,168	-	-
- Total outflow		(8,734,258)	-	-	(4,169,837)	(4,564,421)	-	-
		4,475	-	-	2,728	1,747	-	-

53 Risk management *(continued)*

(3) Liquidity risk *(continued)*

(c) Analysis of credit commitment by contractual expiry date

Management expects that not all of the commitments will be drawn before the expiry of commitments.

	Repayable on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
31 December 2009							
- Off-balance sheet credit commitments	31,185,616	23,680,471	50,842,185	62,197,835	4,991,527	6,364,480	179,262,114
31 December 2008							
- Off-balance sheet credit commitments	28,711,534	17,250,993	31,824,103	47,860,828	2,745,020	1,719,478	130,111,956

(4) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

The Bank manages this risk through an internal control-based environment by establishing a framework of policies and procedures in order to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer system applications and management, safeguarding of assets and legal affairs. The Bank relies on the above mechanism to identify and monitor the operational risk inherent in all key products, activities, processes and systems.

(5) Fair value information

The Bank's financial assets and liabilities mainly include cash, deposits with central banks, deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, derivative assets held for trading, debt securities investments, non-long-term equity investments, deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers, derivative liabilities held for trading and subordinated bonds.

53 Risk management *(continued)*

(5) Fair value information *(continued)*

The notional amount and fair value of debt securities classified as receivables, held-to-maturity investments and subordinated bonds are not recognised or disclosed in fair value are listed as below:

	Book value		Fair value	
	2009	2008	2009	2008
Financial assets				
Debt securities classified as receivables	**5,379,100**	6,377,428	**5,462,034**	6,583,864
Held-to-maturity investments	**41,414,743**	30,770,132	**41,378,751**	31,382,938
	46,793,843	37,147,560	**46,840,785**	37,966,802
Financial liabilities				
Subordinated bonds	**5,000,000**	5,000,000	**5,137,696**	5,370,000

(i) The fair value of debt securities classified as receivables is priced by discounted cash flow based on maturity yield in accordance with similar financial instruments.

(ii) The fair value of held-to-maturity investment and subordinated bond are determined with reference to the available market value or quoted from brokers or agents. If there is no quoted market price in an active market and whose fair value cannot be reliably measured, fair value will be estimated based on pricing model or discounted cash flow, with consideration of yield of products with similar characteristics such as credit risk and maturity.

(iii) Trading financial assets, derivative assets held for trading, derivative liabilities held for trading and available-for-sale financial assets are disclosed in fair value unless the fair value is unable to be measured. For the financial instruments in active open market, the Bank adopts market price or market rate as the best estimate for their fair value. For the financial instruments without market price or market rate, the Bank determines the fair value of these financial assets and financial liabilities by discounted cash flow or other valuation methods.

(iv) Financial assets including cash and deposits with central banks, deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions, financial assets held under resale agreements, and financial liabilities including deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying values approximate the fair value.

53 Risk management *(continued)*

(5) Fair value information *(continued)*

(v) Loans and advances to customers are disclosed with net value measured at cost less impairment losses, and mostly priced at floating rates. Once PBOC's benchmark rate changes, loans and advances to customers will be repriced accordingly. Therefore, their carrying values approximate the fair value.

(vi) Deposits from customers are mostly current account or saving deposits within one year, priced at floating rates approximating PBOC rates and due within one year. Accordingly, the carrying values approximate the fair value.

(6) Capital management

The Bank's capital management aims to optimise the shareholder's equity through structuring the proper asset management system, and it includes optimisation of asset structure and asset allocation between different business lines, which can be further specified as: (1) Developing schemes for asset supplement and optimising asset structure in order to fulfill the funding needs of different business; (2) Building up concept of asset constraint and allocating assets appropriately in order to enhance operating efficiency of assets; (3) Introducing review system with respect to asset efficiency to constrain the expanding ambition of the branches; (4) Improving risk management system in order to reduce the fund occupancy by risk-bearing assets; (5) Building up advanced enterprise culture and code of conduct including "Optimisation of Shareholder's Equity" and "Risk Covered by Fund".

The Bank calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. The capital of the Bank is analysed into core capital and supplementary capital. The core capital mainly includes paid-up share capital, capital reserve, surplus reserve and retained earnings, after the deductions of dividend declared after the balance sheet date and 50% of unconsolidated equity investments. Supplementary capital includes collectively assessed impairment allowance for loans and subordinated bonds. According to a notice issued by the CBRC (Amendment to "Regulation Governing Capital Adequacy of Commercial Banks") on 3 July 2007, supplementary capital should include reserves arising from changes in the fair value of available-for-sale debt securities.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while subordinated liabilities included in the supplementary capital shall not exceed 50% of the core capital.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Bank's sound operations and risk management capability. The Bank's capital adequacy ratio management objectives are to meet the legal and regulatory requirements and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading banks in the market and the Bank's operating situations.

53 Risk management *(continued)*

(6) Capital management *(continued)*

The Bank predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.

Capital allocation

Maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular businesses or activities. It's also taken into account the synergies with other businesses and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

The amount of capital allocated to each business or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles. The process of allocating capital to specific businesses and activities is undertaken by the Financial Department.

The Bank's regulatory capital positions calculated in accordance with the guidance issued by the CBRC (CBRC [2007] N0.11) as at 31 December 2009 is as follows:

	2009 *(RMB Million)*
Total capital	**34,284**
Including: net core capital	**21,482**
Net risk-weighted assets	**381,904**
Capital adequacy ratio	**8.98%**
Core capital adequacy ratio	**5.62%**

54 Related parties and transactions

(1) Terms of transactions

The management consider that all significant transactions (including payment method and terms) between the Bank and related parties are conducted on an arm's length basis.

54 Related parties and transactions *(continued)*

(2) Shareholders

Since the Bank does not have controlling shareholders, the following shareholding companies refer to shareholders having 5% or more of the Bank's equity:

	2009	
	No. of shares held	**%**
CITIGROUP INC.	**2,395,769**	**20.00%**
Chinalife Insurance Company Ltd.	**2,395,769**	**20.00%**
State Grid Corporation of China	**2,395,769**	**20.00%**
CITIC Trust Co., Ltd.	**2,395,769**	**20.00%**

	2008	
	No. of shares held	**%**
CITIGROUP INC.	2,281,685	20.00%
Chinalife Insurance Company Ltd.	2,281,685	20.00%
State Grid Corporation of China	2,281,685	20.00%
CITIC Trust Co., Ltd.	2,281,685	20.00%

	2009	2008
Deposits with banks and non-bank financial institutions	**438,169**	272,350
Loans and advances to customers (i)	**154,500**	182,402
Held-to-maturity investment (ii)	**1,600,000**	-
Deposits from banks and non-bank financial institutions	**2,641**	-
Deposits from customers	**7,541,928**	7,379,139
Interest payable	**99,018**	113,964
Other liabilities	**22,890**	9,620

54 Related parties and transactions *(continued)*

(2) Shareholders *(continued)*

	2009	2008
Interest income	**9,406**	14,679
Interest expense	**324,533**	398,093
Fees and commission income	**19,537**	37,218
Impairment losses for available-for-sale debt securities investment	**-**	66,086
Operating expenses (iii)	**13,231**	14,616

(i) No allowance for impairment was made on loans to shareholder related parties.

(ii) Held-to-maturity investment is a bond issued by the Bank's shareholder State Grid Corporation of China.

(iii) Operating expenses represented accrued technical assistance fee payable to CITIGROUP INC..

(3) Entities controlled by the directors and supervisors

	2009	2008
Loan and advances to customers (i)	**90,000**	34,000

	2009	2008
Interest income	**2,844**	2,554

(i) No allowance for impairment was made on loans and advances to entities controlled by the directors and supervisors.

(4) Investment entities controlled or commonly controlled by the Bank but which are not consolidated

The following transaction balances and volume with investment entities include only balances and volume with Guangdong Guangfa International Finance & Consulting Co., Ltd..

	2009	2008
Deposits from customers	**2,649**	6,745
Other liabilities	**-**	35,490

54 Related parties and transactions *(continued)*

(4) Investment entities controlled or commonly controlled by the Bank but which are not consolidated *(continued)*

	2009	2008
Interest expense	**8**	58
Operating expenses (i)	**260,731**	217,107

(i) The operating expenses represented the outsourcing expense paid to Guangdong Guangfa International Finance & Consulting Co., Ltd..

(5) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including Directors, Supervisors and Senior Management.

The Bank's management is of the opinion that the transactions with key management personnel, their close relatives and the enterprises that they have any control or significant influence over are conducted in the normal course of business, at relevant market rates at the time of transactions and in accordance with normal business procedures. In addition, other than the aggregate emoluments for the key management personnel disclosed in Note 42(i) and loans and advances granted to entities controlled by the directors and supervisors and relevant interest income earned in Note 54(3), the Bank has not disclosed the details of other transactions as the amounts are insignificant.

55 Post balance sheet events

In accordance with the 2009 profit appropriation proposal as approved by the Board of Directors meeting on 23 March 2010, the Bank has appropriated 10% of its current year net profit to the statutory surplus reserve amounting to RMB 0.339 billion, and made appropriation to the statutory general reserve of RMB 0.938 billion such that the reserve balance is equivalent to 1% of the Bank's aggregate amount of risk-bearing assets as at 31 December 2009.

56 Comparative figures

Certain comparative figures have been adjusted to conform with changes in current year disclosures.

Directory of Branches and Subsidiaries

Guangdong Development Bank Head Office

Address: Guangdong Development Bank Building, No.83 Nonglinxia Road, Guangzhou, Guangdong
Telephone: 020-38322888
Facsimile: 020-87310779
Postcode: 510080
Subordinated Outlets: 0
Number of Staffs: 1,181
Asset Scale (RMB million): 279,668

Beijing Branch

Address: No.2 Dahua Road, Dongcheng District, Beijing
Telephone: 010-65269966
Facsimile: 010-65266728
Postcode: 100005
Subordinated Outlets: 29
Number of Staffs: 874
Asset Scale (RMB million): 81,587

Shanghai Branch

Address: No.555 Xujiahui Road, Shanghai
Telephone: 021-63022233
Facsimile: 021-63901929
Postcode: 200023
Subordinated Outlets: 21
Number of Staffs: 547
Asset Scale (RMB million): 62,179

Hangzhou Branch

Address: No.516 Yan'an Road, Hangzhou, Zhejiang
Telephone: 0571-87019888
Facsimile: 0571-87917852
Postcode: 310006
Subordinated Outlets: 30
Number of Staffs: 1,119
Asset Scale (RMB million): 56,742

Nanjing Branch

Address: No.47 Hunan Road, Gulou District, Nanjing, Jiangsu
Telephone: 025-83305888
Facsimile: 025-83321515
Postcode: 210009
Subordinated Outlets: 20
Number of Staffs: 577
Asset Scale (RMB million): 53,250

Zhengzhou Branch

Address: No.10, Road CBD Waihuan, Zhengdong New District, Zhengzhou, Henan
Telephone: 0371-68599907
Facsimile: 0371-68599908
Postcode: 450046
Subordinated Outlets: 24
Number of Staffs: 715
Asset Scale (RMB million): 47,864

Kunming Branch

Address: No.2 Dianchi Road, Kunming, Yunnan
Telephone: 0871-4192153
Facsimile: 0871-4177444
Postcode: 650034
Subordinated Outlets: 19
Number of Staffs: 497
Asset Scale (RMB million): 22,579

Shenyang Branch

Address: No.227 Qingnian Street, Shenhe District, Shenyang, Liaoning
Telephone: 024-23985789
Facsimile: 024-31303301
Postcode: 110016
Subordinated Outlets: 13
Number of Staffs: 384
Asset Scale (RMB million): 21,569

Dalian Branch
Address: No.3 Zhongshan Plaza, Zhongshan District, Dalian, Liaoning
Telephone: 0411-82553000
Facsimile: 0411-82553258
Postcode: 116001
Subordinated Outlets: 15
Number of Staffs: 594
Asset Scale (RMB million): 15,779

Wuhan Branch
Address: Sanxiahanban Building, No.8 Xinhuaxia Road, Jianghan District, Wuhan, Hubei
Telephone: 027-85354567
Facsimile: 027-85354848
Postcode: 430015
Subordinated Outlets: 10
Number of Staffs: 311
Asset Scale (RMB million): 14,411

Changsha Branch
Address: Xinhua Building, No.826, Wuyi Road, Changsha, Hunan
Telephone: 0731-88336789
Facsimile: 0731-88335788
Postcode: 410005
Subordinated Outlets: 1
Number of Staffs: 68
Asset Scale (RMB million): 2,606

Guangzhou Branch
Address: No.3 Lujing Road, Guangzhou, Guangdong
Telephone: 020-83573188
Facsimile: 020-83503050
Postcode: 510091
Subordinated Outlets: 56
Number of Staffs: 1,268
Asset Scale (RMB million): 38,739

Shenzhen Branch
Address: 19-22/F West Block, Shopping Plaza, No.123 Shennan Rd East, Shenzhen, Guangdong
Telephone: 0755-82380048 82380005 82380009
Facsimile: 0755-82380002
Postcode: 518001
Subordinated Outlets: 28
Number of Staffs: 910
Asset Scale (RMB million): 36,884

Dongguan Branch
Address: No.6 Dongcheng Xi Road, Dongguan, Guangdong
Telephone: 0769-22477888 (Operator)
Facsimile: 0769-22456654
Postcode: 523008
Subordinated Outlets: 54
Number of Staffs: 1,152
Asset Scale (RMB million): 33,768

Foshan Branch
Address: GDB Building, No.29 Jihua 5th Road, Foshan, Guangdong
Telephone: 0757-83357698
Facsimile: 0757-83359356
Postcode: 528000
Subordinated Outlets: 36
Number of Staffs: 815
Asset Scale (RMB million): 25,503

Zhuhai Branch
Address: No. 68 Jingshan Road, Zhuhai, Guangdong
Telephone: 0756-3250900
Facsimile: 0756-3250700
Postcode: 519015
Subordinated Outlets: 12
Number of Staffs: 308
Asset Scale (RMB million): 14,573

Huizhou Branch
Address: No.19 Xiapu Avenue, Huizhou, Guangdong
Telephone: 0752-2119898
Facsimile: 0752-2119888
Postcode: 516001
Subordinated Outlets: 19
Number of Staffs: 387
Asset Scale (RMB million): 11,036

Shantou Branch
Address: Chaoshanxinghe Building, Jinhuan Road, Shantou, Guangdong
Telephone: 0754-8262689
Facsimile: 0754-8262489
Postcode: 515041
Subordinated Outlets: 28
Number of Staffs: 595
Asset Scale (RMB million): 9,328

Jiangmen Branch
Address: Block 5, No.49 Jianshe Road, Jiangmen, Guangdong
Telephone: 0750-3288388
Facsimile: 0750-3354276
Postcode: 529000
Subordinated Outlets: 20
Number of Staffs: 461
Asset Scale (RMB million): 8,567

Zhongshan Branch
Address: No.55 Huabai Road, Shiqi, Zhongshan, Guangdong
Telephone: 0760- 8861998
Facsimile: 0760-8861968
Postcode: 528403
Subordinated Outlets: 14
Number of Staffs: 292
Asset Scale (RMB million): 8,056

Zhaoqing Branch
Address: No.75 Tianningbei Road, Zhaoqing, Guangdong
Telephone: 0758-2313023
Facsimile: 0758-2313013
Postcode: 526040
Subordinated Outlets: 17
Number of Staffs: 310
Asset Scale (RMB million): 7,685

Maoming Branch
Address: No.159 Yingbin Road, Maoming, Guangdong
Telephone: 0668-2916688
Facsimile: 0668-2286313
Postcode: 525000
Subordinated Outlets: 14
Number of Staffs: 292
Asset Scale (RMB million): 5,845

Zhanjiang Branch
Address: No.22 Zhongshanyi Road, Chikan, Zhanjian, Guangdong
Telephone: 0759-3366558
Facsimile: 0759-3313285
Postcode: 524032
Subordinated Outlets: 13
Number of Staffs: 287
Asset Scale (RMB million): 4,292

Meizhou Branch
Address: No.41 Jiaying Road, Meizhou, Guangdong
Telephone: 0753-2242068 2242273 2247501
Facsimile: 0753-2243595
Postcode: 514021
Subordinated Outlets: 5
Number of Staffs: 145
Asset Scale (RMB million): 3,236

Qingyuan Branch

Address: GDB Building, Beijiangsan Road, Zone 3
Xinchengxi, Qingyuan, Guangdong
Telephone: 0763-3855009
Facsimile: 0763-3855010
Postcode: 511515
Subordinated Outlets: 6
Number of Staffs: 108
Asset Scale (RMB million): 2,908

Yangjiang Branch

Address: No.38 Jinghu Building, Dongfengsan Road,
Yangjiang, Guangdong
Telephone: 0662-3367725
Facsimile: 0662-3367627
Postcode: 529500
Subordinated Outlets: 5
Number of Staffs: 93
Asset Scale (RMB million): 2,182

Heyuan Branch

Address: No.19 Youli Building, West Jianshe Avenue,
Heyuan, Guangdong
Telephone: 0762-3168600
Facsimile: 0762-3168604
Postcode: 517000
Subordinated Outlets: 6
Number of Staffs: 95
Asset Scale (RMB million): 1,715

Shaoguan Branch

Address: Block 41, Huiminnan Road, Shaoguan,
Guangdong
Telephone: 0751-8177989
Facsimile: 0751-8763208
Postcode: 512025
Subordinated Outlets: 2
Number of Staffs: 48
Asset Scale (RMB million): 855

Macau Branch

Address: Alameda Dr.Carlos D' Assumpcao, nos 181 a
187 Centro Comercial do Grupo Brilhantismo,
180 Andar
Telephone: 00853-28750328
Facsimile: 00853-28750728
Subordinated Outlets: 4
Number of Staffs: 89
Asset Scale (RMB million): 3,870

Tianjin Branch (To be established)

Address: Tianjin Mansion, Jiefangnan Road, Hexi District,
Tianjin
Telephone: 022-58373901
Facsimile: 022-58373902
Postcode: 300042

Beijing Representative Office

Address: No.2 Dahua Road, Dongcheng District, Beijing
Telephone: 010-65266741
Facsimile: 010-65266742
Postcode: 100005

Hong Kong Representative Office

Address: Room 3002, 9 Queen's Road, Central,
Hong Kong
Telephone: 00852-28101213
Facsimile: 00852-25300123

广东发展银行
GUANGDONG DEVELOPMENT BANK

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