



中国民生银行

CHINA MINSHENG BANKING CORP., LTD.

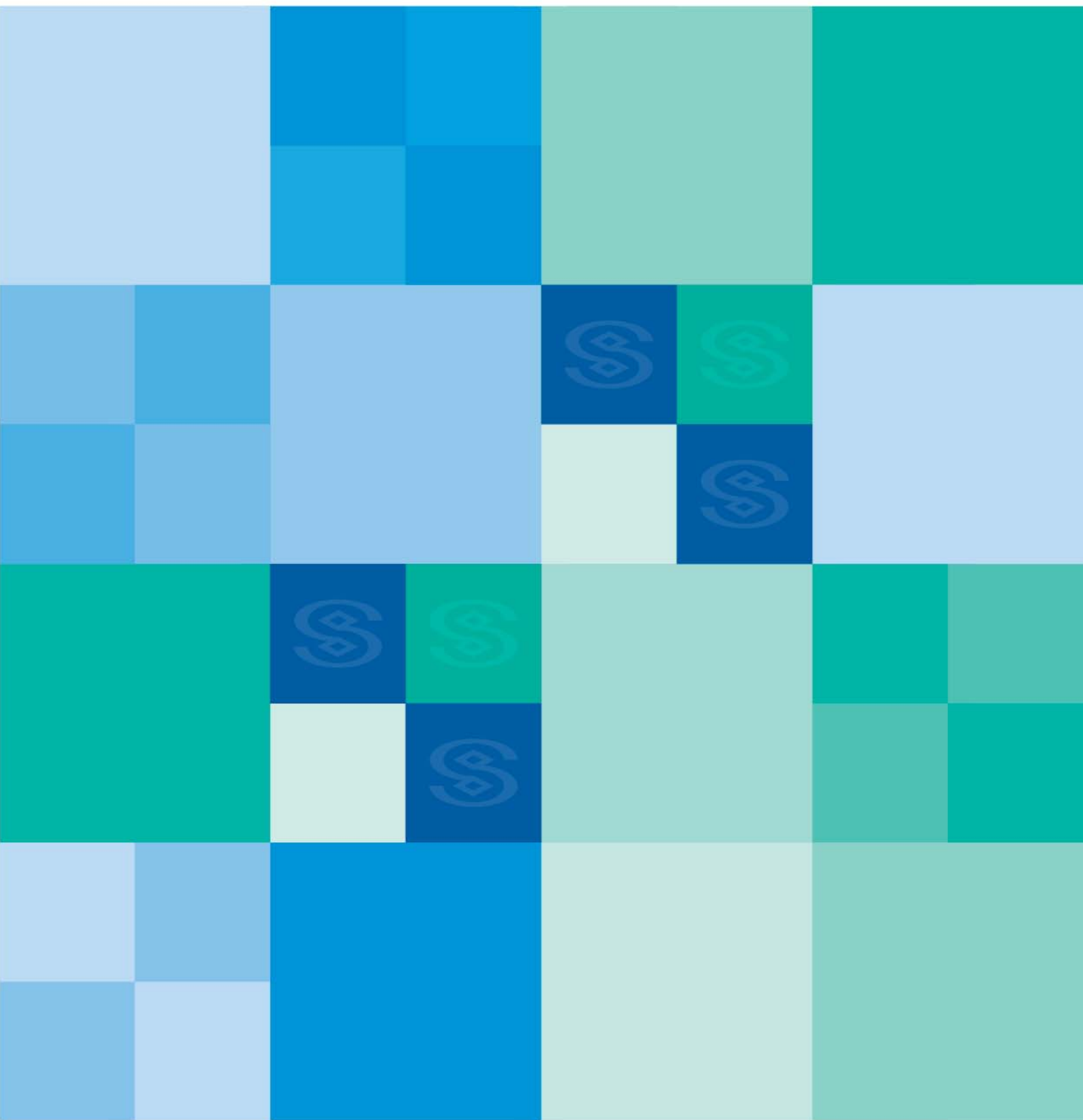
(a joint stock company incorporated in the People's Republic of China with limited liability)

STOCK CODE : 01988



2011 ANNUAL REPORT







## Important Notice

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

The annual report was approved on 22 March 2012 at the 22nd meeting of the 5th session of the Board of the Company. Of the 18 Directors who were entitled to attend the meeting, 18 attended the meeting, among whom 15 attended the meeting in person (including 3 Directors, namely Shi Yuzhu, Chen Jian and Wong Hei attended by teleconference) and 3 were represented by proxy. Lu Zhiqiang entrusted the Chairman Dong Wenbiao, in writing, to exercise his voting rights at the meeting, Wang Hang entrusted a Director, Liu Yonghao, in writing, to exercise his voting rights at the meeting, and Liang Yutang entrusted a Director, Hong Qi, in writing, to exercise his voting rights at the meeting.

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

The financial data and indicators contained in this annual report are prepared in accordance with the IFRS. Unless otherwise specified, all amounts are the consolidated data of the Group and stated in RMB.

Auditors of the Company, KPMG Huazhen and KPMG, have audited the financial reports of 2011 prepared under the CAS and the IFRS respectively, and issued standard auditors’ reports with unqualified opinions.

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

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



# Contents

|  |     |
|--|-----|
| Message from the Chairman                                | 2   |
| Annual Awards  | 4   |
| Bank Profile   | 8   |
| Financial Summary  | 10  |
| Management Discussion and Analysis                       | 12  |
| Changes in Share Capital and Information on Shareholders | 56  |
| Directors, Supervisors, Senior Management and Employees  | 67  |
| Corporate Governance                                     | 82  |
| Shareholders' General Meeting                            | 120 |
| Report of the Board of Directors                         | 122 |
| Report of the Supervisory Board                          | 135 |
| Major Events   | 140 |
| Social Responsibility                                    | 142 |
| Financial Reports  | 146 |
| Index of Documents for Inspection                        | 293 |
| Definitions  | 294 |
| Organizational Chart                                     | 296 |
| List of Entities   | 297 |
| Statistics of Correspondent Banks                        | 300 |

# Message from the Chairman



Chairman **Mr. DONG Wenbiao**

# Message from the Chairman

In 2011, China Minsheng Bank achieved excellent performance in terms of business development, reformation and innovation and presented excellent results of operation to our investors.

In this year, the net profit attributable to the equity holders of the Bank amounted to RMB27,920 million, representing an increase of 58.81% as compared with the corresponding period of the previous year. Return on average assets reached 1.40%, representing an increase of 0.31 percentage point as compared with the previous year. Return on average equity attributable to the shareholders of the Bank was 23.89%, representing an increase of 5.59 percentage points as compared with the previous year. Besides the rapid growth of profit, the asset quality of the Bank continued to maintain stable. As at the end of the year, impaired loan ratio dropped 0.06 percentage point from the beginning of the year to 0.63%. In addition, we further enhanced our risk prevention capability and raised the provision coverage ratio to 357.29% as at the end of the year, representing an increase of 86.84 percentage points from the beginning of the year. Allowance to total loans increased by 0.35 percentage point from the beginning of the year to 2.23%.

The excellent results were attributable to the effective reformation, innovation and strategic transformation of our Bank. From 2006 to 2009, in response to the challenges to be brought by the approaching interest rate marketization era, China Minsheng Bank exerted its efforts in strategic transformation by carrying out major SBU reforms on corporate banking system, expanding the market into the “blue sea” of MSE financial services, and resetting its position as a “bank for NSOEs, bank for MSEs and bank for high-end retail customers”. These measures greatly improved the core competitiveness of our Bank. In 2010, we entered into the development stage of “Second Take-off”, and achieved significant breakthrough in 2011.

Establishing a distinctive bank is one of the key contents of the “Second Take-off” strategy and we achieved great progress in this regard in 2011. The Bank has gradually formed its own distinctive characteristics in terms of customer base, income structure and featured businesses. In respect of customer base, NSOEs, MSEs and high-end retail customers are becoming our major customers. As at the end of 2011, the number of NSOE customers with outstanding loans accounted for 83.60% in the corporate banking segment, and relevant loan amount accounted for 40.40% of total outstanding loans, showing that NSOEs have become the largest customer base of the Bank. The number of MSE customers of the Bank reached 458 thousands, of which, approximately 150 thousands were Shang Dai Tong customers. The outstanding MES loans amounted to RMB232,495 million, accounting for 19.40% of the total outstanding loans, marking the Bank a leading MSE financial service provider in China’s banking industry. The number of private banking customers reached 4,650 with RMB68,400 million financial assets under management. In respect of income structure, as a result of the SBU reform on corporate banking business, the Bank’s loan pricing capability was further improved with better performance in specialized operation, risk management and risk control. In addition to the significant increase in net interest income, the non-interest income also achieved rapid growth as the specialized operations of the corporate banking enhanced the capabilities of the Bank in providing comprehensive and all-round financial services to its customers. In 2011, net non-interest income of the Group amounted to RMB17,375 million, representing an increase of 97.58% as compared with the corresponding period of the previous year and accounting for 21.14% of the operating income, putting the Bank to a leading position among domestic joint-stock banks in terms of net non-interest income. In respect of featured business, apart from conventional businesses of commercial banks, the Bank strived to develop new businesses including investment banking, especially the “Financial Stewardship” services that providing NSOE customers with comprehensive financial services covering package loans, wealth management, financial advisory, debt issue and listing, etc.. These services are provided either solely by the Bank or by other financial institutions through collaborations with the Bank as the organizer. This business model represents an innovative integration of commercial and investment banking businesses, which is highly recognized by customers.

Looking forward, China Minsheng Bank will accelerate the construction of a “distinctive and efficient bank” to achieve the goal of the “Second Take-off” strategy of becoming a world-class international commercial bank, and create higher value and returns to our investors.



**DONG Wenbiao**

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

22 March 2012

# Annual Awards





In 2011, the Company's brand value, recognition and reputation from the society were further improved. With its outstanding operating results, good corporate culture and excellent management, the Company obtained 305 major awards, which mainly include the followings:

The Company won the Golden Bull Built-to-Last Enterprise Award, while Mr. Dong Wenbiao, the Chairman of the Board, and Mr. Mao Xiaofeng, the Board Secretary, won the Golden Bull Best Leader and the Golden Bull Best Board Secretary awards, respectively in the 13th Golden Bull Listed Companies Forum (第13屆金牛上市公司高峰論壇);

The Company won the Excellent Board Award in the 7th Golden Round Table Award for the Boards of Listed Companies in China, and Mr. Dong Wenbiao, the Chairman of the Board, and Mr. Mao Xiaofeng, the Vice President and the Board Secretary, won the awards of "Chairman with the Best Strategic Vision" and "The Most Innovative Board Secretary", respectively;

Mr. Dong Weibiao, Chairman of the Board, was elected as the Outstanding Chinese Banker of the Year (年度中國傑出銀行家) and the Company was recognized as the Top Ten Banking Brands of the Year again in the 2011 China Finance and Economics Ranking (2011年度中國財經風雲榜), a large-scale online election initiated by Hexun.com and jointly hosted by various institutions including the Stock Exchange Executive Council;

Mr. Dong Weibiao, Chairman of the Board won The Most Respected Entrepreneur in China (中國最受尊敬企業家) in the 2011 Huade Awards and continued to rank first in the Satisfaction Survey of Public Image of 100 Chinese Financial Entrepreneurs (中國100金融企業家公眾形象滿意度調查);

Mr. Hong Qi, President of the Bank, was the only financial entrepreneur winning the Chinese Cultural Heritage Protection — Special Contribution Award in the 4th Passing the Torch — Outstanding Person of the Year for Chinese Cultural Heritage Protection Campaign. The Company also won the Passing the Torch — Outstanding Team Award for Chinese Cultural Heritage Protection;

The Company was awarded the Best Service Bank in 2011 in the Oriental Wealth Billboard (財富風雲榜 — 2011年度最佳服務銀行大獎) organized by Eastmoney.com (東方財富網);

The Company received the Best Financial Product Innovation Award in 2011, the Best Supporter for Small and Medium Enterprises in 2011 (2011年最佳中小企業加油站獎) and Users' Favorite Credit Card in 2011 from Sohu.com (搜狐網);

The Company was elected as one of the 2011 Best 10 Financial Service Institutions for SMEs in China (2011中國中小企業金融服務十佳機構) and the Most Innovative Bank of the Year (年度最具創新力銀行) in the Golden Dragon Prize (金龍獎) at the Chinese Financial Institutions Gold Medal List 2011 (2011中國金融機構金牌榜) jointly organized by Financial News and the Institute of Finance and Banking of the Chinese Academy of Social Sciences;

The Company won the Charity Award of the Year in the first Social Responsibility Evaluation and Awarding Campaign for Banking Sector in China organized by the China Banking Association;

# Annual Awards

The Company won the China Philanthropist Award (中華慈善獎) for the third consecutive year, the highest governmental award in China's public welfare and charity circle, being the only financial institution receiving this award this year;

The Common Platform Project of Corporate Data Management and Information Application of the Company was granted the IT Development Award in 2011 by the People's Bank of China, which is the highest national award for joint stock banks, which represents a significant breakthrough of the information system of the Company;

"Shang Dai Tong" (商貸通) of the Company won the Special Small Enterprises Financing Products of Banking Financial Institution in China (全國銀行業金融機構小企業金融服務特色產品) in the Awarding Ceremony of SME Financial Service Providers for 2010 held by the CBRC;

The Company was elected as the Best Domestic Small Business Lending Bank 2011 for its small and micro financial service in The Stars of China – the Best Bank and Enterprise Election Campaign, organized by the Global Finance;

The Company was named the Excellent Service Provider for SMEs while "Shang Dai Tong" (商貸通) won the Excellent SME Service & Product Award in the 5th China Small and Medium Enterprises Festival (中國中小企業節) by the China Association of Small and Medium Enterprises (中國中小企業協會);

The Company was awarded the Best Small and Micro Financial Service Bank (最佳小微金融服務銀行) by the 21st Century Business Herald (《21世紀經濟報道》) in the 2011 Asian Banks Competitiveness Ranking (2011年亞洲銀行競爭力排名);

The Company was elected as the Best Small and Micro Enterprise Service Bank (最佳小微企業服務銀行) in the 2011 China Business News Financial Value Ranking (2011年度第一財經金融價值榜) of The First China Business Post;

The Company was elected as the Best Private Banking Brand of the Year (年度最佳私人銀行品牌) in the Golden Tripod Award (金鼎獎) by the National Business Daily (《每日經濟新聞報社》);

The Company was named the Most Influential Supply Chain Financing Bank in China of 2010–2010 at the 5th China (Suzhou) International Logistics and Supply Chain Co-operation and Development Summit Forum organized by Modern Logistics(《現代物流報》) and its industrial chain development-related projects were included in the Small and Medium Enterprises Yearbook (《中小企業年鑒》) and Investment Yearbook (《投資年鑒》);

The Company was the only commercial bank among all domestic financial institutions winning the China Automobile Dealing Industry Outstanding Contribution Award in 2011 at the 2011 Annual Expo of China Automobile Dealing Industry (中國流車流通行業2011年年會);

The Company was selected as the Best Asset Management Bank in the Outstanding Competitiveness Rankings by the China Business Operation Bulletin;

The Company was awarded the 2011 Best Bank of Trade Finance Innovation (2011年中國最佳貿易金融創新銀行獎) by the UK Financial Times;

The Real Estate Finance SBU of the Company won the Best Banking Service Award in China CFO Most Trusted Bank Contest 2011 (2011年度中國CFO最信賴的銀行) organized by CFO magazine;

The Company won the Best Banking and Financial Service Center of 2011 (2011年度最佳銀行金融服務中心), Minsheng U-key-Most Secured Online Banking Product of 2011 (民生U寶 — 2011年度最佳網上銀行安全產品) and Top 10 Favourite E-Finance Brand of 2011 (用戶滿意十大電子金融品牌) in the 5th China Electronic Finance Development Annual Conference and Ceremony of the 2011 Golden Cup Awards for Chinese Electronic Finance;

The Company received “the 2011 Golden Shield Award — Best Information Disclosure among Listed Companies in China”;

The Company won the Best Investor Relationship Award of China in the 13th IR Global Rankings (“IRGR”) and ranked second in China;

The 2010 Annual Report of the Company won the silver prize in the Annual Report Election of the League of American Communications Professionals, or LACP;

The 2010 Annual Report of the Company was granted the golden prize for financial data and bronze prize for the Message from the Chairman in the International ARC Awards Competition.



# Bank Profile

1. Registered Chinese Name: 中國民生銀行股份有限公司  
(Abbreviation: 「中國民生銀行」)  
Registered English Name: CHINA MINSHENG BANKING CORP., LTD.  
(Abbreviation: “CMBC”)
2. Legal Representative: Dong Wenbiao
3. Authorized Representatives: Andrew Wong  
Soon Yuk Tai
4. Board Secretary: Mao Xiaofeng  
Joint Company Secretaries: Mao Xiaofeng  
Soon Yuk Tai  
Representative of Securities Affairs: He Qun
5. Mailing Address: Building VIII, Beijing Friendship Hotel, No. 1 Zhongguancun Nandajie,  
Beijing, China  
Postal Code: 100873  
Telephone: 86-10-68946790  
Facsimile: 86-10-68466796  
Email: cmbc@cmbc.com.cn
6. Registered Address: No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China  
Postal Code: 100031  
Website: www.cmbc.com.cn  
Email: cmbc@cmbc.com.cn
7. Place of Business in Hong Kong: 36/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong
8. Newspapers selected by the Company for information disclosure: China Securities Journal, Shanghai Securities  
News and Securities Times  
Website for publishing the A Share annual report designated by China Securities Regulatory Commission (the  
“CSRC”): www.sse.com.cn  
Website for publishing the H Share annual report designated by The Stock Exchange of Hong Kong Limited (the  
“Hong Kong Stock Exchange”): www.hkexnews.hk  
Annual reports available at Office of the Board of Directors of the Company

9. Legal Adviser as to PRC Law: Grandall Law Firm (Beijing)  
 Legal Adviser as to Hong Kong Law: Clifford Chance
10. Domestic Auditor: KPMG Huazhen  
 Office Address: 8th Floor, Tower E2, Oriental Plaza,  
 1 East Chang An Avenue, Beijing, China  
 International Auditor: KPMG  
 Office Address: 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong
11. A Share Registrar: China Securities Depository and Clearing Corporation Limited  
 (Shanghai Branch)  
 Office Address: 36/F, China Insurance Building,  
 No. 166 Lujiazui East Road, Pudong, Shanghai, China  
 H Share Registrar: Computershare Hong Kong Investor Services Limited  
 Office Address: 17M Floor, Hopewell Centre, 183 Queen's Road East,  
 Wanchai, Hong Kong
12. Places of Listing, Stock Names and  
 Stock Codes:  
 A Share: Shanghai Stock Exchange; Stock Name: MINSHENG BANK;  
 Stock Code: 600016  
 H Share: The Hong Kong Stock Exchange; Stock Name: MINSHENG BANK;  
 Stock Code: 01988
13. Initial Date of Registration: 7 February, 1996  
 Initial Place of Registration: No. 4 Zhengyi Road, Dongcheng District, Beijing, China
14. Date of Registration for Subsequent  
 Change: 20 November, 2007  
 Place of Registration: No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China
15. Registration Number of  
 Corporate Business License: 100000000018983
16. Registration Number of  
 Tax Certificate: Jing Guo Shui Dong Zi 110101100018988  
 Di Shui Jing Zi 110101100018988000

The Bank profile is based on the information as of 31 December 2011.

# Financial Summary

## I. Major Financial Data and Indicators

|  | 2011      | 2010      | Changes from 2010 to 2011    | 2009      | 2008      | 2007    |
|--|-----------|-----------|------------------------------|-----------|-----------|---------|
| <b>For the reporting period</b>  |           |           |                              |           |           |         |
| <b>Operating Results (RMB million)</b>   |           |           | Changes (%)                  |           |           |         |
| Net interest income  | 64,821    | 45,873    | 41.31                        | 32,240    | 30,380    | 22,580  |
| Net non-interest income  | 17,375    | 8,794     | 97.58                        | 9,797     | 4,593     | 2,692   |
| Operating income   | 82,196    | 54,667    | 50.36                        | 42,037    | 34,973    | 25,272  |
| Operating expenses   | 35,449    | 25,452    | 39.28                        | 20,539    | 17,817    | 13,752  |
| Impairment losses on assets  | 8,376     | 5,504     | 52.18                        | 5,307     | 6,518     | 2,265   |
| Profit before income tax   | 37,175    | 22,976    | 61.80                        | 15,656    | 10,488    | 9,212   |
| Net profit attributable to equity shareholders of the Bank                       | 27,920    | 17,581    | 58.81                        | 12,104    | 7,885     | 6,335   |
| <b>Data per share (RMB/share)</b>  |           |           | Changes (%)                  |           |           |         |
| Basic earnings per share   | 1.05      | 0.66      | 59.09                        | 0.53      | 0.35      | 0.31    |
| Diluted earnings per share   | 1.05      | 0.66      | 59.09                        | 0.53      | 0.35      | 0.31    |
| Net cash flow per share arising from operating activities                        | 3.78      | 1.40      | 170.00                       | 2.56      | 2.96      | -0.97   |
|  |           |           | Changes in percentage points |           |           |         |
| <b>Profitability indicators (%)</b>  |           |           |                              |           |           |         |
| Return on average assets   | 1.40      | 1.09      | 0.31                         | 0.98      | 0.80      | 0.77    |
| Return on average shareholders' equity   | 23.89     | 18.30     | 5.59                         | 17.06     | 15.15     | 18.23   |
| Net interest spread  | 2.96      | 2.82      | 0.14                         | 2.49      | 3.00      | 2.84    |
| Net interest margin  | 3.14      | 2.94      | 0.20                         | 2.59      | 3.15      | 2.93    |
| Net fee and commission income to operating income ratio                          | 18.37     | 15.16     | 3.21                         | 11.09     | 12.76     | 9.46    |
| Cost-to-income ratio   | 37.14     | 40.90     | -3.76                        | 43.47     | 43.04     | 46.49   |
| <b>As at the end of the reporting period</b>                                     |           |           |                              |           |           |         |
| <b>Scale indicators (RMB million)</b>  |           |           | Changes (%)                  |           |           |         |
| Total assets   | 2,229,064 | 1,823,737 | 22.23                        | 1,426,392 | 1,054,350 | 918,837 |
| Gross loans and advances to customers  | 1,205,221 | 1,057,571 | 13.96                        | 882,979   | 658,360   | 554,959 |
| Total liabilities  | 2,094,954 | 1,718,480 | 21.91                        | 1,337,498 | 999,678   | 868,650 |
| Deposits from customers  | 1,644,738 | 1,417,877 | 16.00                        | 1,128,830 | 786,987   | 671,963 |
| Share capital  | 26,715    | 26,715    | 0.00                         | 22,262    | 18,823    | 14,479  |
| Equity attributable to equity shareholders of the Bank                           | 129,597   | 104,108   | 24.48                        | 88,034    | 53,880    | 50,187  |
| Net assets per share attributable to equity shareholders of the Bank (RMB/share) | 4.85      | 3.90      | 24.36                        | 3.95      | 2.86      | 3.47    |
|  |           |           | Changes in percentage points |           |           |         |
| <b>Assets quality indicators (%)</b>   |           |           |                              |           |           |         |
| Impaired loan ratio  | 0.63      | 0.69      | -0.06                        | 0.84      | 1.20      | 1.22    |
| Allowance to impaired loans  | 357.29    | 270.45    | 86.84                        | 206.04    | 150.04    | 113.14  |
| Allowance to total loans   | 2.23      | 1.88      | 0.35                         | 1.73      | 1.81      | 1.38    |
|  |           |           | Changes in percentage points |           |           |         |
| <b>Capital adequacy ratio indicators (%)</b>                                     |           |           |                              |           |           |         |
| Capital adequacy ratio   | 10.86     | 10.44     | 0.42                         | 10.83     | 9.22      | 10.73   |
| Core capital adequacy ratio  | 7.87      | 8.07      | -0.20                        | 8.92      | 6.60      | 7.40    |
| Total equity to total assets ratio   | 6.02      | 5.77      | 0.25                         | 6.23      | 5.19      | 5.46    |

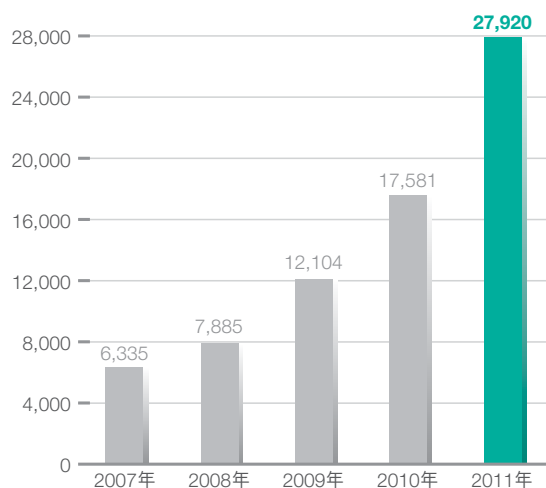
- Notes: 1. Return on average assets = Net profit/average balance of total assets at the beginning and the end of the period.  
 2. Return on average shareholders' equity = Net profit attributable to equity shareholders of the Bank for the period/average balance of equity attributable to equity shareholders of the Bank at the beginning and the end of the period.  
 3. Net interest spread = Average return on interest-earning assets — average cost of interest-bearing liabilities.  
 4. Net interest margin = Net interest income/average balance of interest-earning assets.  
 5. Cost-to-income ratio = (Operating and administrative expenses — tax and surcharge)/operating income.  
 6. Impaired loan ratio = Balance of impaired loans/gross loans and advances to customers.  
 7. Allowance to impaired loans = Allowance of impaired loans/balance of impaired loans.  
 8. Allowance to total loans = Allowance of impaired loans/gross loans and advances to customers.  
 9. Certain comparative figures have been reclassified to confirm to the presentation of the current period.

## II. Supplementary Financial Indicators

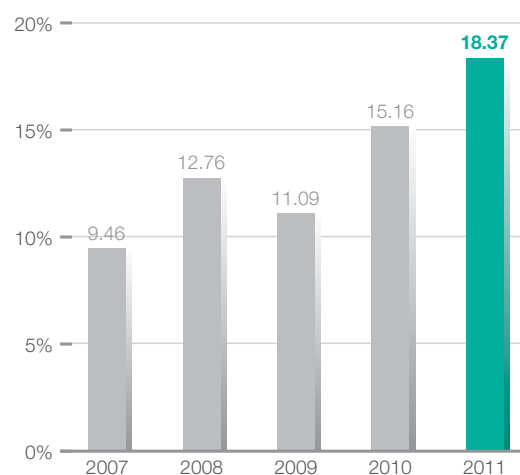
| Major indicators  | Benchmark            | As at             |                   |                   |       |
|---|----------------------|-------------------|-------------------|-------------------|-------|
|   |                      | 31 December, 2011 | 31 December, 2010 | 31 December, 2009 |       |
| Liquidity ratio (%)   | Consolidated in RMB  | ≥25               | 40.90             | 33.24             | 35.43 |
| Loan-to-deposit ratio (%)                                     | Consolidated in RMB  | ≤75               | 72.85             | 72.78             | 75.52 |
| Inter-bank lending/<br>borrowing ratio (%)                    | Bank borrowing ratio | ≤4                | 0.99              | 0.77              | 0.65  |
|   | Bank lending ratio   | ≤8                | 2.29              | 2.64              | 1.80  |
| Total loans to the single largest borrower to net capital (%) |                      | ≤10               | 3.86              | 4.11              | 6.91  |
| Total loans to the top ten borrowers to net capital (%)       |                      | ≤50               | 20.93             | 28.45             | 36.14 |

- Notes: 1. The above data are information of the Company. The indicators were calculated based on the relevant regulations of the Chinese banking regulators.  
 2. The above loan-to-deposit ratio was calculated based on the outstanding loan-to-deposit balance ratio. The average daily loan-to-deposit ratio (RMB) of the Company in 2011 was 74.3%.  
 3. Total loans to the single largest borrower to net capital = Total loans to the single largest borrower/net capital.  
 4. Total loans to the top ten borrowers to net capital = Total loans to top ten borrowers/net capital.

### Net Profit Attributable to Equity Shareholders of The Bank (RMB million)



### Net Fee and Commission Income to Operating Income Ratio (%)



# Management Discussion and Analysis





## I. Review of Economic and Fiscal Conditions and Government Policies: Changes, Impacts and Responses

In 2011, the global economy experienced a depression in the midst of the worsening European and American sovereign debt crisis. Under the challenging global economic environment, China managed to achieve the overall economic developments goal of “ensuring steady growth and restructuring the economy while maintaining price stability”. China tightened its control over macro-economy and successively raised the deposit reserve ratio for six times and interest rates for three times in 2011. The regulatory authorities issued several documents, including the Guiding Opinions on the Implementation of New Regulatory Standards in China’s Banking Industry (《中國銀行業實施新監管標準指導意見》), to impose stricter requirements on the loan-to-deposit ratio and minimize the risks arising from local financing vehicles, real estate markets and excessive production capacity of industries by continuing to implement the “Three Measures and One Guideline” policy. In response to the changes in the economic and financial environment, regulatory policies and market competitions, the Company has taken the following measures:

(i) the Company further strengthened its corporate governance to allow the Board and its committees to fully play their roles in coordinating the implementation of the “Second Take-off” (二次騰飛) strategy; (ii) the management of operation continued to carry out decisions of the Board in accordance with the business strategy of maintaining distinction, focusing on major businesses, strengthening management and accelerating reform; (iii) the Company strived to build its professional competitive advantages, re-allocate its resources and introduce innovative products and services. It developed its three major strategic businesses to thoroughly optimize the structures of customer, business and income by introducing comprehensive “Financial Stewardship” (金融管家) services to promote strategies of business for non-state-owned enterprises (“NSOE”) upgrading its small and micro enterprises (“MSE”) financing services to build brand dominance, and stipulating strategies for retail business with high-end customers; (iv) the Company stressed on steady growth of its liability business to maintain balanced development with assets; (v) the Company continued to strengthen its overall risk management system to facilitate strategic transformation and improve asset quality; (vi) adhering to its customer-centric approach, the Company pushed forward the introduction and application of three strategic management tools, namely Voice of Customer, Six Sigma Management System and performance assessment with Balanced Score Card and enhanced its resources allocation, cost control and pricing management; (vii) the Company further deepened its Strategic Business Unit (“SBU”) reform, commenced the construction of cross-selling platform and continued to build its process-based banking in order to promote scientific development on the basis of reform and innovation; and (viii) the Company standardized job responsibilities, improved quality of its core working teams and provided training to its employees at various levels to build up a strong work force.

## II. Overview of Operations

In 2011, in view of the adjustment and changes in macroeconomic environment and regulatory policies, the Company adhered to its strategy of becoming a “bank for NSOEs”, “bank for MSEs” and “bank for high-end retail customers” and consistently strengthened its business goal of “distinctive” and “efficient” bank. The Company adhered to the instructing policy of “adherence to characteristics, accentuation of focus, strengthened management, speed-up reform”. The Company actively overcame difficulties and made consistent efforts in reorganization, which results in significant effects with continuously raising profits and jumping increase in business performance.

# Management Discussion and Analysis

## **(I) Higher profitability and return to shareholders**

During the reporting period, net profit attributable to equity shareholders of the Bank amounted to RMB27,920 million, representing an increase of RMB10,339 million, or 58.81%, as compared with last year. Return on average assets was 1.40%, representing an increase of 0.31 percentage points from the previous year. Return on average shareholders' equity increased by 5.59 percentage points from the previous year to 23.89%. The basic earnings per share was RMB1.05, representing an increase of RMB0.39, or 59.09%, as compared with last year.

## **(II) Continued optimization of income structure and significant raise of percentage of intermediary businesses income**

During the reporting period, the Group recorded operating income of RMB82,196 million, representing an increase of RMB27,529 million, or 50.36%, as compared with last year. Net interest margin reached 3.14%, representing an increase of 0.20 percentage points, as compared with last year. Of which, net interest income and net non-interest income increased by RMB18,948 million and RMB8,581 million, or 41.31% and 97.58%, to RMB64,821 million and RMB17,375 million, respectively, from the previous year. Net fee and commission income amounted to RMB15,101 million, representing an increase of RMB6,812 million or 82.18%. Net fee and commission income accounted for 18.37% of the operating income, representing an increase of 3.21 percentage points from the previous year.

## **(III) Healthy growth of assets and liabilities business as well as further adjustment of strategic business structure**

During the reporting period, the total assets and liabilities of the Group exceeded RMB2,000,000 million respectively. As at the end of the reporting period, the total assets of the Group reached RMB2,229,064 million, representing an increase of RMB405,327 million, or 22.23%, from the end of previous year. The total liabilities amounted to RMB2,094,954 million, representing an increase of 376,474 million or 21.91%, from the end of previous year. Total loans and advances increased to RMB1,205,221 million, representing an increase of RMB147,650 million, or 13.96%, as compared to the end of the previous year. Total deposits from customers increased to RMB1,644,738 million, representing an increase of RMB226,861 million, or 16.00%, as compared to the end of the previous year. The outstanding loans of Shang Dai Tong (商貸通), one of the strategic businesses of the Company, amounted to RMB232,495 million as at the end of the reporting period, representing an increase of RMB73,509 million, or 46.24%, from the end of the previous year. The number of customers of Shang Dai Tong was approximately 150,000. Outstanding general loans to NSOEs reached RMB484,162 million, representing an increase of 24.58% as compared with the end of the previous year, and there were 11,353 customers of NSOEs with outstanding balances. The Company had 4,650 private banking customers and the financial assets managed by the Company increased to RMB68,400 million.

## **(IV) Stronger risk resistance capability and stable asset quality**

At the end of the reporting period, the impaired loan ratio of the Group decreased by 0.06 percentage point from the end of the previous year to 0.63%, while the allowance to impaired loans ratio increased by 86.84 percentage points from the end of the previous year to 357.29%. The allowance to total loan ratio increased by 0.35 percentage point from the end of the previous year to 2.23%, reflecting a stronger risk resistance capability.

# Management Discussion and Analysis

## (V) Further improved cost-to-income ratio and higher operation efficiency

The Group continued to strengthen and improve cost management in order to improve the cost-to-income ratio and enhance operation efficiency. At the end of the reporting period, the cost-to-income ratio of the Group decreased by 3.76 percentage points as compared with last year to 37.14%.

## III. Analysis of Major Items of Income Statement

During the reporting period, the Group further improved its profitability during the reporting period and realized a net profit attributable to the equity shareholders of the Bank of RMB27,920 million, representing an increase of 58.81% as compared with the corresponding period of the previous year. The increase was mainly driven by the jumping growth of operating income, the continuous improvement of cost-to-income ratio and stable asset quality.

The major profit and loss items of the Group and their changes are listed below:

*(Unit: RMB million)*

| Item   | 2011   | 2010   | Changes (%) |
|--|--------|--------|-------------|
| Operating Income                                     | 82,196 | 54,667 | 50.36       |
| Of which: Net interest income                        | 64,821 | 45,873 | 41.31       |
| Net non-interest income                              | 17,375 | 8,794  | 97.58       |
| Operating expenses                                   | 35,449 | 25,452 | 39.28       |
| Impairment losses on assets                          | 8,376  | 5,504  | 52.18       |
| Other operating expenses                             | 1,196  | 735    | 62.72       |
| Profit before income tax                             | 37,175 | 22,976 | 61.80       |
| Income tax expenses                                  | 8,732  | 5,288  | 65.13       |
| Net profit   | 28,443 | 17,688 | 60.80       |
| Of which: Profit attributable to equity shareholders |        |        |             |
| of the Bank  | 27,920 | 17,581 | 58.81       |
| Profit attributable to non-controlling interests     | 523    | 107    | 388.79      |

## (I) Net interest income and net interest margin

During the reporting period, net interest income of the Group for the reporting period was RMB64,821 million, representing an increase of RMB18,948 million, or 41.31%, as compared with last year. Of which, the increase in net interest margin and the size of interest-earning assets contributed RMB10,427 million and RMB8,521 million to the increase in net interest income respectively.

The net interest margin of the Group for 2011 increased by 0.20 percentage points from the previous year to 3.14%. The increase was mainly due to the strategic transformation, the effective adjustment of business structure, higher interest spread of treasury business and the adjustment of benchmark interest rate.

# Management Discussion and Analysis

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

(Unit: RMB million)

| Item  | 2011             |                   |                    | 2010             |                   |                    |
|---|------------------|-------------------|--------------------|------------------|-------------------|--------------------|
|   | Average balance  | Interest income   | Average return (%) | Average balance  | Interest income   | Average return (%) |
| <b>Interest-earning assets</b>  |                  |                   |                    |                  |                   |                    |
| Loans and advances  | 1,130,746        | 80,958            | 7.16               | 971,602          | 56,218            | 5.79               |
| Of which: Corporate loans   | 811,097          | 58,112            | 7.16               | 758,338          | 44,138            | 5.82               |
| Personal loans  | 319,649          | 22,846            | 7.15               | 213,264          | 12,080            | 5.66               |
| Debt securities   | 195,419          | 6,553             | 3.35               | 180,609          | 5,272             | 2.92               |
| Balances with central bank  | 289,304          | 4,261             | 1.47               | 202,409          | 2,912             | 1.44               |
| Balances and placements with banks and other financial institutions (including financial assets held under resale agreements)     | 402,886          | 21,981            | 5.46               | 174,252          | 4,521             | 2.59               |
| Finance lease receivables   | 44,476           | 3,528             | 7.93               | 29,221           | 1,853             | 6.34               |
| <b>Total</b>  | <b>2,062,831</b> | <b>117,281</b>    | <b>5.69</b>        | <b>1,558,093</b> | <b>70,776</b>     | <b>4.54</b>        |
| Item  | Average balance  | Interest expenses | Average cost (%)   | Average balance  | Interest expenses | Average cost (%)   |
| <b>Interest-bearing liabilities</b>   |                  |                   |                    |                  |                   |                    |
| Deposits from customers   | 1,491,616        | 30,977            | 2.08               | 1,211,382        | 18,592            | 1.53               |
| Corporate deposits  | 1,242,977        | 26,256            | 2.11               | 1,014,358        | 15,385            | 1.52               |
| Of which: Demand  | 558,064          | 4,361             | 0.78               | 497,907          | 3,225             | 0.65               |
| Time  | 684,913          | 21,895            | 3.20               | 516,451          | 12,160            | 2.35               |
| Personal deposits   | 248,639          | 4,721             | 1.90               | 197,024          | 3,207             | 1.63               |
| Of which: Demand  | 68,471           | 329               | 0.48               | 52,674           | 186               | 0.35               |
| Time  | 180,168          | 4,392             | 2.44               | 144,350          | 3,021             | 2.09               |
| Deposits and placements from banks and other financial institutions (including financial assets sold under repurchase agreements) | 370,650          | 18,319            | 4.94               | 193,043          | 4,709             | 2.44               |
| Debt securities issued  | 28,676           | 1,408             | 4.91               | 22,610           | 955               | 4.22               |
| Borrowings from banks and other financial institutions  | 33,650           | 1,756             | 5.22               | 21,220           | 647               | 3.05               |
| <b>Total</b>  | <b>1,924,592</b> | <b>52,460</b>     | <b>2.73</b>        | <b>1,448,255</b> | <b>24,903</b>     | <b>1.72</b>        |
| <b>Net interest income</b>  | <b>—</b>         | <b>64,821</b>     | <b>—</b>           | <b>—</b>         | <b>45,873</b>     | <b>—</b>           |
| <b>Net interest spread</b>  | <b>—</b>         | <b>—</b>          | <b>2.96</b>        | <b>—</b>         | <b>—</b>          | <b>2.82</b>        |
| <b>Net interest margin</b>  | <b>—</b>         | <b>—</b>          | <b>3.14</b>        | <b>—</b>         | <b>—</b>          | <b>2.94</b>        |

Note: 1. In this table, temporary deposits, dormant accounts and remittance payables are included in corporate demand deposits.

2. The Bank updated its acceptance system and changed the accounting treatment of the gain or loss arising from the disposal of discounted bills in 2011. After the system update, the difference between the discounted interest incomes unamortized and rediscounted interest costs is recognized as disposal gain or loss, while it was recognized as interest income in prior periods.

# Management Discussion and Analysis

The table below sets out the breakdown of the impact on the changes in interest income and interest expenses of the Group owing to changes in scale and changes in interest rate for the periods indicated.

(Unit: RMB million)

| Item  | Changes from<br>2010 to 2011<br>in scale | Changes from<br>2010 to 2011<br>in interest rate | Changes       |
|---|--|--|---------------|
| <b>Change in interest income</b>  |  |  |               |
| Loans and advances  | 9,208                                    | 15,532   | 24,740        |
| Debt securities   | 432                                      | 849  | 1,281         |
| Balances with central bank  | 1,250                                    | 99   | 1,349         |
| Balances and placements with banks and<br>other financial institutions (including financial<br>assets held under resale agreements)     | 5,932                                    | 11,528   | 17,460        |
| Finance lease receivables   | 967                                      | 708  | 1,675         |
| <b>Subtotal</b>   | <b>17,789</b>                            | <b>28,716</b>                                    | <b>46,505</b> |
| <b>Change in interest expenses</b>  |  |  |               |
| Deposits from customers   | 4,301                                    | 8,084  | 12,385        |
| Deposits and placements from banks and<br>other financial institutions (including financial<br>assets sold under repurchase agreements) | 4,332                                    | 9,278  | 13,610        |
| Debt securities issued  | 256                                      | 197  | 453           |
| Borrowings from banks and other financial<br>institutions   | 379                                      | 730  | 1,109         |
| <b>Subtotal</b>   | <b>9,268</b>                             | <b>18,289</b>                                    | <b>27,557</b> |
| <b>Change in net interest income</b>  | <b>8,521</b>                             | <b>10,427</b>                                    | <b>18,948</b> |

Note: Change in scale is measured by the change of average balance. Change in interest rate is measured by the change of average interest rate.

## 1. Interest income

During the reporting period, the interest income of the Group was RMB117,281 million, representing an increase of RMB46,505 million, or 65.71%, as compared with last year. The increase in net interest margin and interest-earning assets contributed RMB28,716 million and RMB17,789 million respectively to the increase in net interest income. Interest income from loans and balances and placements with banks and other financial institutions (including financial assets held under resale agreements) accounted for 69.03% and 18.74% of the total interest income respectively.

### (1) Interest income from loans and advances

During the reporting period, interest income from loans and advances of the Group for the reporting period amounted to RMB80,958 million, representing an increase of RMB24,740 million, or 44.01%, as compared with last year. Interest income from loans and advances to individuals accounted for 28.22% of total loan interest income from

# Management Discussion and Analysis

loans, representing an increase of 6.73 percentage points from last year, mainly due to the significant growth of Shang Dai Tong (商貸通) loan business. During the reporting period, given the strategic transformation, the effective adjustment of business structure and the adjustment of benchmark interest rate, average return on loans and advances for the reporting period was 7.16%, representing an increase of 1.37 percentage points from last year.

## **(2) Interest income from debt securities investment**

During the reporting period, the interest income from debt securities investments of the Group for the reporting period was RMB6,553 million, representing an increase of 24.30% as compared with last year. The increase was mainly due to the increase in market interest rates and investment size of the Group.

## **(3) Interest income from balances with central bank**

During the reporting period, the interest income of the Group from balances with the central bank for the reporting period amounted to RMB4,261 million, representing an increase of 46.33% as compared with last year. The increase was mainly due to the increase in deposits in the central bank as the macroeconomic monitoring was continuously tightened up and the central bank increased the reserve requirement ratio for six consecutive times.

## **(4) Interest income arising from balances and placements with banks and other financial institutions**

During the reporting period, the interest income arising from balances and placements with banks and other financial institutions (including financial assets held under resale agreements) of the Group for the reporting period was RMB21,981 million, representing an increase of 386.20% as compared with last year. The increase was mainly due to the increase of interest rates and the increase in the amounts due from other banks and financial institutions.

## **(5) Interest income from finance lease receivables**

During the reporting period, the interest income from finance lease of the Group for the reporting period amounted to RMB3,528 million, representing an increase of RMB1,675 million, or 90.39%, as compared with the corresponding period of the previous year. The increase was mainly due to business growth and improvement in pricing of Minsheng Financial Leasing Co., Ltd., a subsidiary of the Group.

## **2. Interest expenses**

The interest expenses of the Group for the reporting period was RMB52,460 million, representing an increase of RMB27,557 million, or 110.66%, as compared with last year. An increase of RMB18,289 million and RMB9,268 million was due to the increase in interest rates and balance of interest-bearing liabilities respectively. The interest expenses on deposits accounted for 59.05% of the total interest expenses while interest expenses on amounts due to and placements from banks and other financial institutions (including financial assets sold under repurchase agreements) accounted for 34.92% of the total interest expenses.

### **(1) Interest expenses on deposits**

During the reporting period, interest expenses of the Group on deposits amounted to RMB30,977 million, representing an increase of RMB12,385 million, or 66.61%, as compared with last year. The increase was mainly due to the increase in average interest rate of deposits by 0.55 percentage point from last year to 2.08% and the expansion in the size of deposits of the Group.

## **(2) Interest expenses on deposits and placements from banks and other financial institutions**

During the reporting period, interest expenses of the Group on deposits and placements from banks and other financial institutions (including assets sold under repurchase agreements) amounted to RMB18,319 million, representing an increase of RMB13,610 million, or 289.02%, as compared with last year. The increase was mainly due to the increase in amounts due to and placements from banks and other financial institutions and the increase in interest rates.

## **(3) Interest expenses on debt securities issued**

During the reporting period, interest expenses of the Group on debt securities issued amounted to RMB1,408 million, representing an increase of 47.43% as compared with last year, which was mainly due to the Group's issue of subordinated bonds of RMB10,000 million during the reporting period.

## **(4) Interest expenses on borrowings from banks and other financial institutions**

During the reporting period, the interest expenses on borrowings from other financial institutions amounted to RMB1,756 million, representing an increase of 171.41% as compared with last year. The increase was mainly due to the increase in the size of borrowings and the increase in interest rates of Minsheng Financial Leasing Co., Ltd., a subsidiary of the Group.

## **(II) Net non-interest income**

During the reporting period, the net non-interest income of the Group for the year amounted to RMB17,375 million, representing an increase of RMB8,581 million, or 97.58%, as compared with the corresponding period of the previous year.

(Unit: RMB million)

| Item                          | 2011   | 2010  | Changes (%) |
|-------------------------------|--------|-------|-------------|
| Net fee and commission income | 15,101 | 8,289 | 82.18       |
| Other net non-interest income | 2,274  | 505   | 350.30      |
| Total                         | 17,375 | 8,794 | 97.58       |

### **1. Net fee and commission income**

During the reporting period, the net fee and commission income of the Group for the reporting period amounted to RMB15,101 million, representing an increase of RMB6,812 million, or 82.18%, as compared with last year. The increase was mainly due to significant increases of fee income from wealth management, banking card businesses, financial advisory service and trade finance.

# Management Discussion and Analysis

(Unit: RMB million)

| Item                               | 2011   | 2010  | Changes (%) |
|------------------------------------|--------|-------|-------------|
| Trust and other fiduciary services | 4,072  | 1,764 | 130.84      |
| Financial advisory services        | 3,614  | 2,389 | 51.28       |
| Credit commitments                 | 2,362  | 1,462 | 61.56       |
| Bank card services                 | 2,124  | 1,007 | 110.92      |
| Settlement services                | 1,686  | 924   | 82.47       |
| Finance lease services             | 670    | 469   | 42.86       |
| Securities underwriting services   | 494    | 335   | 47.46       |
| Others                             | 969    | 403   | 140.45      |
| Fee and commission income          | 15,991 | 8,753 | 82.69       |
| Less: Fee and commission expense   | 890    | 464   | 91.81       |
| Net fee and commission income      | 15,101 | 8,289 | 82.18       |

## 2. Other net non-interest income

(Unit: RMB million)

| Item   | 2011  | 2010 | Changes (%)            |
|--|-------|------|------------------------|
| Net trading gain   | 484   | 284  | 70.42                  |
| Gain on exchange rate instruments                                  | 352   | 539  | -34.69                 |
| Gain/(loss) on precious metals and other products                  | 98    | -168 | negative for last year |
| Gain/(loss) on interest rate instruments                           | 34    | -87  | negative for last year |
| Net gain arising from disposals of securities and discounted bills | 1,790 | 221  | 709.95                 |
| Total  | 2,274 | 505  | 350.30                 |

Note: The Bank updated its acceptance system and changed the accounting treatment of the gain or loss arising from the disposal of discounted bills in 2011. After the system update, the difference between the discounted interest incomes unamortized and rediscounted interest costs is recognized as disposal gain or loss, while it was recognized as interest income in prior years.

## (III) Operating expenses

The operating expenses of the Group for the reporting period increased by 39.28% as compared with last year to RMB35,449 million. The increase was mainly due to the increases in staff remuneration, business tax and business development expenses. The cost-to-income ratio of the Group improved by 3.76 percentage points down as compared with last year to 37.14% due to continuous increase of operating income and effective cost control.

(Unit: RMB million)

| Item                          | 2011   | 2010   | Changes (%) |
|-------------------------------|--------|--------|-------------|
| Staff costs                   | 15,603 | 10,842 | 43.91       |
| Business tax and surcharges   | 6,116  | 3,827  | 59.81       |
| Business development expenses | 2,716  | 1,921  | 41.38       |
| Office expenses               | 1,878  | 1,900  | -1.16       |
| Others                        | 9,136  | 6,962  | 31.23       |
| Total                         | 35,449 | 25,452 | 39.28       |



# Management Discussion and Analysis

## (IV) Impairment losses on assets

During the reporting period, the Group recorded an impairment loss on assets of RMB8,376 million, representing an increase of RMB2,872 million, or 52.18%, as compared with last year. The increase was mainly due to the growth in loans and improved risk resistance capabilities by adopting a prudent allowance policy.

(Unit: RMB million)

| Item                            | 2011  | 2010  | Changes (%) |
|---------------------------------|-------|-------|-------------|
| Loans and advances to customers | 7,973 | 5,303 | 50.35       |
| Finance lease receivables       | 396   | 195   | 103.08      |
| Others                          | 7     | 6     | 16.67       |
| Total                           | 8,376 | 5,504 | 52.18       |

## (V) Income tax expenses

During the reporting period, the income tax expenses of the Group for the year was RMB8,732 million, representing an increase of RMB3,444 million as compared with last year. The effective tax rate was 23.49%.

## IV. Analysis of Major Items of Report of Financial Position Changes

### (I) Assets

At the end of the reporting period, total assets of the Group amounted to RMB2,229,064 million, representing an increase of RMB405,327 million, or 22.23%, from the end of the previous year. The increase of total assets was mainly due to the increase in customer base and business scale.

The table below sets out the components of the Group's total assets as at 31 December, 2011.

(Unit: RMB million)

| Item   | 31 December, 2011 |            | 31 December, 2010 |            |
|--|-------------------|------------|-------------------|------------|
|  | Amount            | % of total | Amount            | % of total |
| Gross loans and advances to customers  | 1,205,221         | 54.07      | 1,057,571         | 57.99      |
| Allowance for impairment losses on loans   | -26,936           | -1.21      | -19,848           | -1.09      |
| Net loans and advances to customers  | 1,178,285         | 52.86      | 1,037,723         | 56.90      |
| Balances and placements with banks and other financial institutions (including financial assets held under resale agreement) | 411,103           | 18.44      | 274,847           | 15.07      |
| Cash and balances with central bank  | 332,805           | 14.93      | 266,835           | 14.63      |
| Investments  | 212,072           | 9.51       | 181,419           | 9.95       |
| Net properties and facilities  | 9,971             | 0.45       | 8,809             | 0.48       |
| Other assets   | 84,828            | 3.81       | 54,104            | 2.97       |
| Total  | 2,229,064         | 100.00     | 1,823,737         | 100.00     |

Note: Investments include available-for-sale securities, held-to-maturity securities, loans and investments receivables, trading financial assets and derivative financial assets.

# Management Discussion and Analysis

## 1. Loans and advances

At the end of the reporting period, total loans and advances of the Group amounted to RMB1,205,221 million, representing an increase of RMB147,650 million from the end of the previous year. Total loans and advances accounted for 54.07% of total assets, which was slightly lower than that of the end of the previous year. The decrease was mainly due to unfavourable market environment and adjustments of business structure. The proportion of personal loans increased to 30.21% of the total loans as at the end of the reporting period as a result of the increase in the loans of Shang Dai Tong.

Breakdown of loans and advances by product type is as follows:

(Unit: RMB million)

| Item                       | 31 December, 2011 |            | 31 December, 2010 |            |
|----------------------------|-------------------|------------|-------------------|------------|
|                            | Amount            | % of total | Amount            | % of total |
| Corporate loans            | 841,118           | 69.79      | 778,409           | 73.60      |
| Of which: Discounted bills | 13,960            | 1.16       | 11,931            | 1.13       |
| Personal loans             | 364,103           | 30.21      | 279,162           | 26.40      |
| Total                      | 1,205,221         | 100.00     | 1,057,571         | 100.00     |

Breakdown of personal loan business is as follows:

(Unit: RMB million)

| Item                          | 31 December, 2011 |            | 31 December, 2010 |            |
|-------------------------------|-------------------|------------|-------------------|------------|
|                               | Amount            | % of total | Amount            | % of total |
| Shang Dai Tong (商貸通)          | 232,495           | 63.85      | 158,986           | 56.95      |
| Residential mortgage          | 83,337            | 22.89      | 97,494            | 34.92      |
| Receivables from credit cards | 38,551            | 10.59      | 16,432            | 5.89       |
| Others                        | 9,720             | 2.67       | 6,250             | 2.24       |
| Total                         | 364,103           | 100.00     | 279,162           | 100.00     |

## 2. Balances and placements with banks and other financial institutions

As at the end of the reporting period, the total balances and placements of the Group with banks and other financial institutions (including financial assets held under resale agreements) increased by 49.58% from the end of the previous year to RMB411,103 million. The increase was mainly due to the increase of balances and placements with banks and other financial institutions based on funds positions and changes of market interest rate.

## 3. Investments

As at the end of the reporting period, the balance of the Group's investments was RMB212,072 million, representing an increase of 16.90% as compared with the end of the previous year. The increase was mainly due to the expanded scale of available-for-sale financial assets and trading financial assets.

# Management Discussion and Analysis

Breakdown of investments of the Group by purpose of holding is as follows:

(Unit: RMB million)

| Item                               | 31 December, 2011 |            | 31 December, 2010 |            |
|------------------------------------|-------------------|------------|-------------------|------------|
|                                    | Amount            | % of total | Amount            | % of total |
| Trading financial assets           | 20,423            | 9.63       | 6,024             | 3.32       |
| Available-for-sale securities      | 64,857            | 30.58      | 35,192            | 19.40      |
| Held-to-maturity securities        | 117,886           | 55.59      | 128,610           | 70.89      |
| Loans and receivables              | 8,319             | 3.92       | 11,117            | 6.13       |
| Positive fair value of derivatives | 587               | 0.28       | 476               | 0.26       |
| Total                              | 212,072           | 100.00     | 181,419           | 100.00     |

## (1) Holdings of material government bonds

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

(Unit: RMB million)

| Item   | Par value | Annual interest rate (%) | Maturity date           |
|--|-----------|--------------------------|-------------------------|
| 2003 Book-entry T-bonds                            | 2,565     | 2.8                      | 9-4-2013                |
| 2006 Book-entry T-bonds                            | 1,122     | 2.51                     | 27-2-2013               |
| 2007 Book-entry T-bonds                            | 1,693     | 3.9                      | 23-8-2014               |
| 2008 Book-entry T-bonds                            | 3,320     | 2.71-4.16                | 21-4-2013 to 28-2-2023  |
| 2009 Book-entry T-bonds                            | 2,989     | 2.26-2.29                | 2-4-2014 to 4-6-2014    |
| 2010 Book-entry T-bonds and local government bonds | 13,940    | 2.01-3.67                | 28-1-2012 to 28-10-2020 |
| 2011 Book-entry T-bonds                            | 29,354    | 2.77-3.6                 | 13-1-2012 to 17-2-2016  |
| Total  | 54,984    | —                        | —                       |

## (2) Holdings of material financial bonds

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

(Unit: RMB million)

| Item                 | Par value | Annual interest rate (%)           | Maturity date           | Provision for impairment |
|----------------------|-----------|------------------------------------|-------------------------|--------------------------|
| 2002 Financial bonds | 1,020     | 2.7                                | 23-4-2012               | —                        |
| 2003 Financial bonds | 3,860     | Floating, 3.72-3.99 for the period | 9-5-2013 to 16-6-2013   | —                        |
| 2010 Financial bonds | 3,010     | 3.05-floating, 4.09 for the period | 7-9-2015 to 25-2-2020   | —                        |
| 2011 Financial bonds | 17,900    | 3.31-4.24                          | 12-4-2012 to 28-12-2016 | —                        |
| Total                | 25,790    | —                                  | —                       | —                        |

# Management Discussion and Analysis

## (3) Major types and amount of derivative financial instruments

(Unit: RMB million)

| Item                      | Notional amount | Fair Value |             |
|---------------------------|-----------------|------------|-------------|
|                           |                 | Assets     | Liabilities |
| Interest rate swaps       | 37,069          | 351        | -371        |
| Foreign exchange forwards | 38,183          | 106        | -85         |
| Currency swaps            | 29,719          | 129        | -150        |
| Precious metal swaps      | 2,818           | —          | -180        |
| Credit default swaps      | 132             | 1          | -1          |
| Extension options         | 8,300           | —          | —           |
| Total                     |                 | 587        | -787        |

## (II) Liabilities

At the end of the reporting period, the Group's total liabilities amounted to RMB2,094,954 million, representing an increase of 21.91% as compared with the end of the previous year. Total deposit from customers amounted to RMB1,644,738 million, representing an increase of 16.00% as compared with the end of the previous year, accounting for 78.51% of the total liabilities.

The table below sets out the breakdown of the Group's total liabilities as at 31 December, 2011.

(Unit: RMB million)

| Item  | 31 December, 2011 |            | 31 December, 2010 |            |
|---|-------------------|------------|-------------------|------------|
|   | Amount            | % of total | Amount            | % of total |
| Deposits from customers   | 1,644,738         | 78.51      | 1,417,877         | 82.51      |
| Deposits and placements from banks and other financial institutions (including financial assets sold under repurchase agreements) | 333,135           | 15.90      | 225,094           | 13.10      |
| Borrowings from banks and other financial institutions  | 40,825            | 1.95       | 25,211            | 1.47       |
| Debt securities issued  | 31,030            | 1.48       | 21,048            | 1.22       |
| Other liabilities   | 45,226            | 2.16       | 29,250            | 1.70       |
| Total liabilities   | 2,094,954         | 100.00     | 1,718,480         | 100.00     |

### 1. Deposits from customers

At the end of the reporting period, total deposits balance from customers of the Group amounted to RMB1,644,738 million, representing an increase of RMB226,861 million, or 16.00%, as compared with the end of the previous year. The proportion of corporate deposits, personal deposits and other deposits in total deposits were 82.26%, 17.55% and 0.19%, respectively. The proportion of demand deposits, time deposits and other deposit in total deposits were 42.26%, 57.55% and 0.19%, respectively.

# Management Discussion and Analysis

(Unit: RMB million)

| Item               | 31 December, 2011 |            | 31 December, 2010 |            |
|--------------------|-------------------|------------|-------------------|------------|
|                    | Amount            | % of total | Amount            | % of total |
| Corporate deposits | 1,352,991         | 82.26      | 1,184,527         | 83.54      |
| – Demand           | 609,850           | 37.08      | 579,530           | 40.87      |
| – Time             | 743,141           | 45.18      | 604,997           | 42.67      |
| Personal deposits  | 288,622           | 17.55      | 231,366           | 16.32      |
| – Demand           | 85,198            | 5.18       | 71,795            | 5.06       |
| – Time             | 203,424           | 12.37      | 159,571           | 11.26      |
| Others             | 3,125             | 0.19       | 1,984             | 0.14       |
| Total              | 1,644,738         | 100.00     | 1,417,877         | 100.00     |

## 2. Deposits and placements from banks and other financial institutions

At the end of the reporting period, the total deposits and placements from banks and other financial institutions of the Group (including financial assets sold under repurchase agreements) amounted to RMB333,135 million, representing an increase of 48.00% as compared with the end of the previous year. The increase was mainly due to the increase in the Group's deposits from other banks and financial institutions by capturing market opportunities.

### (III) Shareholders' interest

At the end of the reporting period, total shareholders' equity of the Group amounted to RMB134,110 million, representing an increase of RMB28,853 million, or 27.41%, as compared to the end of the previous year. Equity attributable to the equity shareholders of the Bank was RMB129,597 million, representing an increase of RMB25,489 million, or 24.48%, as compared to the end of the previous year. The significant increase in shareholders' equity was mainly attributable to the remarkable growth in the net profit of the Group and the capital increase of Minsheng Financial Leasing Co., Ltd., a subsidiary of the Company, in the reporting period.

(Unit: RMB million)

| Item   | 31 December, | 31 December, | Increase (%) |
|--|--------------|--------------|--------------|
|  | 2011         | 2010         |              |
| Share capital                                    | 26,715       | 26,715       | 0.00         |
| Capital reserve                                  | 38,360       | 38,075       | 0.75         |
| Surplus reserve                                  | 8,647        | 5,903        | 46.48        |
| General reserve                                  | 16,740       | 13,822       | 21.11        |
| Investment revaluation reserve                   | -110         | -288         | -61.81       |
| Retained earnings                                | 39,245       | 19,881       | 97.40        |
| Equity attributable to the                       |              |              |              |
| equity shareholders of the Bank                  | 129,597      | 104,108      | 24.48        |
| Equity attributable to non-controlling interests | 4,513        | 1,149        | 292.78       |
| Total equity                                     | 134,110      | 105,257      | 27.41        |

# Management Discussion and Analysis

## (IV) Off-balance Sheet items

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

(Unit: RMB million)

| Item                            | 31 December, 2011 | 31 December, 2010 | Increase (%) |
|---------------------------------|-------------------|-------------------|--------------|
| Bank acceptances                | 462,638           | 308,584           | 49.92        |
| Letters of guarantees           | 67,321            | 50,115            | 34.33        |
| Letters of credit               | 66,368            | 30,062            | 120.77       |
| Trade finance arrangements      | 56,334            | 24,267            | 132.14       |
| Unused credit card limits       | 12,578            | 18,618            | -32.44       |
| Financial lease commitments     | 2,808             | 1,898             | 47.95        |
| Irrevocable loan commitments    | 2,046             | 5,629             | -63.65       |
| Capital expenditure commitments | 10,068            | 8,296             | 21.36        |
| Operating lease commitments     | 6,549             | 4,149             | 57.85        |

## (V) Market share of major products and services

According to the *Summary of Sources & Uses of Funds of Financial Institutions (in RMB and Foreign Currency)* released by the PBOC in December 2011, among nine national joint-stock commercial banks in China, the market shares of total deposits and savings deposits of the Company had were 13.39% and 11.56% respectively as at the end of the reporting period. As at the end of the reporting period, the market shares of total loans, general loans and personal loans of the Company were 13.51%, 13.7% and 15.85% respectively.

## V. Qualitative Analysis of Loans

### (I) Industry concentration of loans

(Unit: RMB million)

| Item  | 31 December, 2011 |            | 31 December, 2010 |            |
|---|-------------------|------------|-------------------|------------|
|   | Amount            | % of total | Amount            | % of total |
| Corporate loans and advances                            |                   |            |                   |            |
| Manufacturing   | 186,664           | 15.49      | 143,036           | 13.51      |
| Real estate   | 129,740           | 10.76      | 129,424           | 12.23      |
| Leasing and commercial services                         | 116,510           | 9.67       | 107,736           | 10.19      |
| Wholesale and retail                                    | 94,756            | 7.86       | 62,031            | 5.87       |
| Mining  | 64,586            | 5.36       | 61,845            | 5.85       |
| Transportation, storage and postal services             | 62,208            | 5.16       | 69,248            | 6.55       |
| Water, environment and public utilities                 | 36,578            | 3.03       | 53,798            | 5.09       |
| Construction  | 31,202            | 2.59       | 26,237            | 2.48       |
| Public administration and social organizations          | 28,972            | 2.40       | 32,567            | 3.08       |
| Production and supply of electric power, gas and water  | 26,818            | 2.23       | 31,712            | 3.00       |
| Education and community services                        | 19,904            | 1.65       | 24,277            | 2.30       |
| Financial services                                      | 19,331            | 1.60       | 18,112            | 1.71       |
| Information transmission, computer service and software | 4,574             | 0.38       | 3,933             | 0.37       |
| Others  | 19,275            | 1.61       | 14,453            | 1.37       |
| Subtotal  | 841,118           | 69.79      | 778,409           | 73.60      |
| Personal loans and advances                             | 364,103           | 30.21      | 279,162           | 26.40      |
| Total   | 1,205,221         | 100.00     | 1,057,571         | 100.00     |

# Management Discussion and Analysis

## (II) Geographical distribution of loans

(Unit: RMB million)

| Region         | 31 December, 2011 |            | 31 December, 2010 |            |
|----------------|-------------------|------------|-------------------|------------|
|                | Amount            | % of total | Amount            | % of total |
| Northern China | 335,145           | 27.81      | 307,220           | 29.05      |
| Eastern China  | 446,079           | 37.01      | 400,678           | 37.89      |
| Southern China | 130,601           | 10.84      | 113,682           | 10.75      |
| Others         | 293,396           | 24.34      | 235,991           | 22.31      |
| Total          | 1,205,221         | 100.00     | 1,057,571         | 100.00     |

Note: Northern China includes Minsheng Financial Leasing Co., Ltd. and Ningjin Minsheng Township Bank Co., Ltd., the head office and the branches in Beijing, Taiyuan, Shijiazhuang and Tianjin; Eastern China includes the Minsheng township banks in Cixi, Shanghai Songjiang, Jiading, Penglai, Funing and Taicang, and the branches in Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei and Nanchang; Southern China includes Minsheng Royal Fund Management Co., Ltd., and the Minsheng township banks in Anxi and Zhangpu, and the branches in Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou, Xiamen and Nanning; Other regions include Minsheng township banks in Pengzhou, Jiangxia, Changyuan, Tongnan, Meihokou, Ziyang, Qijiang, Yidu and Zhongxiang and the branches in Xi'an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou, Changchun, Hohhot and Shenyang.

## (III) Classification and percentage of loan guarantees

(Unit: RMB million)

| Item   | 31 December, 2011 |            | 31 December, 2010 |            |
|--|-------------------|------------|-------------------|------------|
|  | Amount            | % of total | Amount            | % of total |
| Unsecured loans                              | 179,185           | 14.87      | 177,165           | 16.75      |
| Guaranteed loans                             | 368,321           | 30.56      | 296,146           | 28.00      |
| Loans secured by                             |                   |            |                   |            |
| — tangible assets other than monetary assets | 519,191           | 43.08      | 492,037           | 46.53      |
| — monetary assets                            | 138,524           | 11.49      | 92,223            | 8.72       |
| Total  | 1,205,221         | 100.00     | 1,057,571         | 100.00     |

Note: In the reporting period, the Group classified the loans with combined guarantee, and made re-classification and adjustment to the corresponding figures of the previous year.

## (IV) Top ten borrowers

At the end of the reporting period, the aggregate outstanding loans to the top ten borrowers of the Group was RMB34,908 million, accounting for 2.90% of the total loans. The top ten borrowers of the Group were Chaoyang Branch of Beijing Center for Land Consolidation Reserve (北京市土地整理儲備中心朝陽分中心), Ordos State-owned Assets Investment and Management Co., Ltd. (鄂爾多斯市國有資產投資經營有限責任公司), Tianjin Jinyuan Investment and Development Co., Ltd. (天津市津源投資發展有限公司), Shanghai Lingang New City Land Reserve Center (上海臨港新城土地儲備中心), Chengdu Investment Holding Group Co., Ltd. (成都投資控股集團有限公司), Xi'an Qujiang New District Land Reserve Center (西安曲江新區土地儲備中心), Yunnan Zhonghao Real Estate Co., Ltd. (雲南中豪置業有限責任公司), Chongqing Land Properties Group (重慶市地產集團), Beijing Center for Land Consolidation Reserve (北京市土地整理儲備中心) and Tangshan Caofeidian Land Company Limited (唐山曹妃甸造地有限公司).

# Management Discussion and Analysis

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

(Unit: RMB million)

| Item                   | 31 December, 2011 |            | 31 December, 2010 |            |
|------------------------|-------------------|------------|-------------------|------------|
|                        | Amount            | % of total | Amount            | % of total |
| Performing loans       | 1,197,682         | 99.37      | 1,050,232         | 99.31      |
| Of which: Pass         | 1,184,347         | 98.27      | 1,040,101         | 98.35      |
| Special mention        | 13,335            | 1.10       | 10,131            | 0.96       |
| Non-performing loans   | 7,539             | 0.63       | 7,339             | 0.69       |
| Of which: Sub-standard | 3,915             | 0.32       | 3,701             | 0.35       |
| Doubtful               | 2,399             | 0.20       | 1,983             | 0.19       |
| Loss                   | 1,225             | 0.11       | 1,655             | 0.15       |
| Total                  | 1,205,221         | 100.00     | 1,057,571         | 100.00     |

## (VI) Migration ratio of loans

The table below sets forth the migration ratio of loans of the Company in the recent three consecutive years:

| Item            | 2011   | 2010   | 2009   |
|-----------------|--------|--------|--------|
| Pass            | 1.20%  | 1.25%  | 1.37%  |
| Special mention | 26.79% | 20.26% | 9.38%  |
| Sub-standard    | 17.50% | 21.15% | 82.19% |
| Doubtful        | 2.96%  | 5.18%  | 53.01% |

## (VII) Subsidized loans

At the end of the reporting period, the Group had no subsidized loans.

## (VIII) Restructured loans and past due loans

(Unit: RMB million)

| Item               | 31 December, 2011 |            | 31 December, 2010 |            |
|--------------------|-------------------|------------|-------------------|------------|
|                    | Amount            | % of total | Amount            | % of total |
| Restructured loans | 1,717             | 0.14       | 2,412             | 0.23       |
| Past due loans     | 10,323            | 0.86       | 7,996             | 0.76       |

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

2. Past due loans are loans of which the principal or any interest is overdue for one or more days.



# Management Discussion and Analysis

## (IX) Changes in allowance for impairment losses

*(Unit: RMB million)*

| Item                         | 2011   | 2010   |
|------------------------------|--------|--------|
| Balance as at year beginning | 19,848 | 15,241 |
| New allowance                | 9,048  | 6,237  |
| Releases                     | -1,075 | -934   |
| Transfers                    | -2     | —      |
| Write-offs                   | -861   | -773   |
| Recovery after write-off     | 222    | 246    |
| Unwinding of discount        | -234   | -170   |
| Exchange difference          | -10    | 1      |
| Balance as at year end       | 26,936 | 19,848 |

Method for assessing allowances for impairment losses:

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

## (X) Non-performing loans and related measures

As at the end of the reporting period, the Group had non-performing loans of RMB7,539 million. The NPL ratio was 0.63%, down by 0.06 percentage point from the end of the previous year.

To improve asset quality and reduce NPL ratio, the Group mainly adopted the following measures during the reporting period:

- (1) Enhancing credit planning, proactively adjusting loan distribution, and continuously optimizing asset structure in line with the changing economic environment and requirements of macro-economic policies;

# Management Discussion and Analysis

- (2) Continuing to optimize the risk management system, improving the risk management policies and imposing multidimensional risk limit management for various industries and regions;
- (3) Proactively developing and optimizing the system of risk monitoring and early-warning, and conducting focused stress testing, risk identification and special examination in order to effectively control NPLs while strengthening routine post-loan management;
- (4) Closely monitoring loans with potential risk factors and problems in order to formulate contingency plans in an early and timely manner to properly move recovery process to an earlier stage;
- (5) Comprehensively utilizing all available recovery and disposal measures such as repayment collection, restructuring, assignment, foreclosing and legal action, and enhancing recovery assessment so as to reinforce the accountability mechanism for nonperforming assets and to improve the efficiency and effectiveness of recovery; and
- (6) Strengthening training programs to improve the professional skills and the comprehensive qualities of the risk management team and foster the philosophy of compliance.

## VI. Analysis of Capital Adequacy Ratio

As at the end of the reporting period, capital adequacy ratio of the Group increased by 0.42 percentage points and core capital adequacy ratio of the Group decreased by 0.20 percentage points respectively, from the end of the previous year. The changes in capital adequacy ratio in 2011 were mainly due to a number of factors. Total risk-weighted assets increased in line with the organic growth of our businesses and the increase in the core capital of the Group was also increased by the capitalization of net profits. The supplementary capital of the Group was also increased by the issue of RMB10,000 million subordinated bonds and general impairment provisions of loans. The Group increased the capital size to partly offset the negative effect on capital adequacy ratio arising from the increase in risk assets.

(Unit: RMB million)

| Item  | 31 December,<br>2011 | 31 December,<br>2010 | 31 December,<br>2009 |
|---|----------------------|----------------------|----------------------|
| Net capital   | 174,034              | 133,772              | 107,656              |
| Of which: — Core capital                                    | 126,086              | 103,488              | 88,756               |
| — Supplementary capital                                     | 48,073               | 30,408               | 21,224               |
| — Deductions  | 125                  | 124                  | 2,324                |
| Total risk-weighted assets and adjustment<br>to market risk | 1,602,301            | 1,280,847            | 993,773              |
| Core capital adequacy ratio (%)                             | 7.87                 | 8.07                 | 8.92                 |
| Capital adequacy ratio (%)                                  | 10.86                | 10.44                | 10.83                |

## VII. Segment Report

The Group's businesses can be analyzed by geographical region and business segment. In respect of geographical locations, the Group mainly operates its business in four main regions, namely, northern China, eastern China, southern China and others. In respect of business lines, the Group provides different types of financial services in four major business segments, namely corporate banking, personal banking, treasury and others.

### (I) Segment operating results by geographical region

(Unit: RMB million)

| Region                   | Total assets<br>(excluding<br>deferred income<br>tax assets) | Operating income | Profit before tax |
|--------------------------|--|------------------|-------------------|
| Northern China           | 1,299,472  | 29,338           | 9,185             |
| Eastern China            | 754,749  | 26,655           | 14,102            |
| Southern China           | 278,661  | 9,907            | 5,164             |
| Others                   | 470,410  | 16,296           | 8,724             |
| Inter-segment adjustment | -581,210   | —                | —                 |
| <b>Total</b>             | <b>2,222,082</b>   | <b>82,196</b>    | <b>37,175</b>     |

Note: Inter-segment adjustment refers to the centralized adjustments involving the Bank or a number of branch offices (such as inter-entity balances and open credit).

### (II) Segment operating results by business line

(Unit: RMB million)

| Type of Business  | Total assets<br>(excluding<br>deferred income<br>tax assets) | Operating income | Profit before tax |
|-------------------|--|------------------|-------------------|
| Corporate banking | 961,612  | 39,238           | 17,825            |
| Personal banking  | 364,499  | 21,340           | 7,153             |
| Treasury          | 830,410  | 19,728           | 10,937            |
| Others            | 65,561   | 1,890            | 1,260             |
| <b>Total</b>      | <b>2,222,082</b>   | <b>82,196</b>    | <b>37,175</b>     |

# Management Discussion and Analysis

## VIII. Other Financial Information

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

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

In order to regulate fair value measurement, improve the quality of financial information, strengthen risk management and protect the legitimate interests of investors and all relevant parties, the Company has formulated the Administrative Measures regarding Fair Value (公允價值管理辦法) based on the Chinese Accounting Standards (“CAS”), which expanded the scope of fair value measurement to cover the initial measurement of assets and liabilities, including part of the financial assets, financial liabilities and foreclosed assets; and clarified and refined the principles, methods and procedures for determining fair value. With the aim to enhance the rationality and reliability of the valuation of fair value, the Company has assigned relevant departments to specific responsibilities for fair value management so as to continuously strengthen research into the valuation of its asset and liability businesses and improve internal valuation capabilities. The Company will also refine in stages its valuation models and systems to verify prices obtained externally. Moreover, the Company has implemented internal control measures over the process of fair value measurement, including double-checking on price enquiry and confirmation, and adopting a dual signature mode by person-in-charge and reviewer for the fair value measurement process to be effected. In the meantime, the Internal Audit Department plays an active role in the rectification of identified issues through monitoring and examination of fair value scoping, methodology and procedures, so as to improve internal control within the Company.

#### 2. Items measured at fair value

The Company’s financial instruments measured at fair value include: trading financial assets, derivative financial instruments and available-for-sale financial assets. Debt securities in trading financial assets and available-for-sale financial assets were valued using the following methods: for RMB bonds, in principle the valuation provided by China Government Securities Depository Trust & Clearing Co. Ltd. would apply; for bonds denominated in foreign currencies, market value was determined through a combination of BLOOMBERG quotes, DATASCOPE quotes and enquiries; and the fair value of most derivative financial instruments was obtained directly from quotes of market prices, while the fair value of certain derivative financial instruments with customers was obtained from market enquiries. Derivative financial instruments mainly consisted of interest rate swap contracts with customers and proprietary interest rate swap contracts, the market risks of which had been hedged. The changes in fair value had little impact on the profit of the Company. Changes in fair value of available-for-sale financial assets were considered when calculating shareholders’ equities.

(Unit: RMB million)

| Item   | Opening balance | Gain/Loss from fair value changes for the period | Accumulated fair value changes charged to equity | Impairment allowance for the period | Closing balance |
|--|-----------------|--|--|-------------------------------------|-----------------|
| Financial assets   |                 |  |  |                                     |                 |
| Of which: 1. Financial assets at fair value through profit or loss for the period (excluding positive fair value of derivatives) | 6,024           | 28   | –  | –                                   | 20,423          |
| 2. Positive fair value of derivatives  | 476             | 111  | –  | –                                   | 587             |
| 3. Available-for-sale financial assets   | 35,067          | –  | -110   | –                                   | 64,732          |
| Investment properties  | –               | –  | –  | –                                   | –               |
| Bio-assets for production  | –               | –  | –  | –                                   | –               |
| Others   | –               | –  | –  | –                                   | –               |
| Total  | 41,567          | 139  | -110   | –                                   | 85,742          |
| Financial liabilities  | 368             | 419  | –  | –                                   | 787             |

## (II) Overdue and outstanding liabilities

At the end of the reporting period, the Company had no material outstanding liabilities that were overdue.

## IX. Performance of Key Business Lines

### (I) Corporate banking

In the reporting period, the Company took initiatives in its corporate banking business operation to respond to changes in operating and regulatory environments. Targeting on building itself into a distinctive and efficient bank, the Company focused on



the implementation of strategies relating to NSOEs and promotion of the “Financial Stewardship” (金融管家) services and adopted intensive management under capital restraint, such that as the Company moved ahead in its development, it was also progressing to optimize the structure of its business, customer base and income sources, demonstrating initial achievement of its strategic transformation.

#### 1. Customer base of corporate banking

In the reporting period, the Company adopted the strategy of positioning itself as a “bank for NSOEs” and expanded its customer base with the following measures: (1) The Company took various means and measures to expand into new markets and develop new customers to further enhance the corporate customer base. (2) While maintaining its traditional advantages of good relationship with large customers, leveraging the needs arising from the transformation of the national economy and the transformation of its business, the Company enhanced its “1+2+N” Financial Steward services to speed up the development of a strategic customer base of NSOEs in an aim to cultivate future mainstream customer group for its corporate banking business.

As at the end of the reporting period, the Company had 13,580 customers with outstanding general loans, and 234,700 corporate deposit accounts with outstanding balance, representing a significant increase of 31.00% and 33.73% as compared with the beginning of the period, respectively. The average balance of outstanding loans per corporate account decreased to RMB59 million from RMB73 million as at the beginning of the period, primarily due to the effective measures of customer cultivation. Loan concentration was effectively reduced and the customer structure was further optimized.

In the reporting period, the Company continued to cooperate with ACFIC, local chambers of commerce and industry associations. NSOEs of sound financial strength, development vision and potential were selected as strategic customers of the Company. The Company set up dedicated financial Steward team according to the “1+2+N” model

# Management Discussion and Analysis

for these customers. In line with customer development strategy and demands for financial services, the Company developed comprehensive financial service solutions that included financing and advisory services. The Company then entered into strategic cooperation agreements with these customers at appropriate times when conditions are ripe. Through our “Financial Stewardship” service team model, the Company has successfully expanded the service coverage of NSOEs and small and medium-sized enterprises (“SMEs”) and built up a core customer base of NSOEs as long-term strategic customers.

In the reporting period, the Company and ACFIC jointly organized the “Press Conference on China’s Top 500 NSOEs” (中國民營企業500強發佈會) and announced the top 500 NSOEs and top 500 manufacturers in China. The Company developed and provided integrated financial solutions including industry chain financing, issuance of debt financing instruments, structural financing, and cash management to various customers. As at the end of the reporting period, the Company had 11,353 NSOEs customers with outstanding loan balances, and outstanding general loans amounted to RMB484,162 million, representing an increase of 38.59% and 24.58% respectively as compared with the beginning of the period. In corporate banking business, the number of NSOEs customers with outstanding general loans accounted for 83.60% and the relevant general loan amount accounted for 60.14%.

During the reporting period, the Company obtained the qualification of agency bank for the centralized treasury payment of the central government and became one of the four agency banks for direct payment of the central government. The capability and quality of the Company’s financial services were recognized by the Ministry of Finance and the central budget unit of the State, laying a solid foundation for the Company to further optimize its liabilities management, expand institutional customer base and achieve the “Second take-off” in its development.

## 2. Corporate loans

In the reporting period, the Company developed its corporate loan business by focusing on controlling the total lending amount, optimizing the structure, maintaining good quality of loan portfolio and improving efficiency. The Company regulated the growth of loans and the pace of loan extension on a rational basis to optimize the loan structure. The size of corporate loans recorded steady growth and the asset quality remained stable with significant increase in total revenue. The major business strategies and measures of the Company’s loan business include the following:

- (1) The Company adhered to changes in relevant policies and regulated the growth of loans and the pace of loan extension on a rational basis. The Company also closely catered the needs of its strategic transformation and readjusted its resources allocation to extend more credit provision to strategic business with MSEs and SMEs.

As at the end of the reporting period, outstanding corporate loans (including discounted bills) of the Company amounted to RMB836,906 million, representing an increase of RMB60,719 million, or 7.82%, as compared with the beginning of the period. Outstanding general corporate loans amounted to RMB805,017 million, representing an increase of RMB54,516 million, or 7.26%, as compared with the end of the previous year. Non-performing corporate loan ratio of the Company amounted to 0.78%, representing a decrease of 0.06 percentage points as compared with the end of the previous year.

- (2) The Company utilized a combination of credit products including commercial bills and trade finance as well as comprehensive credit management measures in a flexible manner to satisfy the capital demands of customers. Based on this, the Company continued to optimize the credit structure as well as increase revenue.

In the reporting period, the Company further enhanced its risk management in all respects and optimized its operating processes. New bill business products and services were introduced and the management of bill business was revamped. The Company satisfied various needs of customers with timely and accurate one-stop financial services based on its rich product portfolio and comprehensive bill financing solutions, which effectively catered their needs in working capital loans while reducing the capital occupation cost and financing cost of customers, particularly for SMEs. In the reporting period, the discounted bill business amounted to RMB418,400 million, of which, the direct discounted commercial bill business amounted to RMB129,000 million, representing an increase of 33.38% and 87.53% respectively as compared with the corresponding period of last year.

With distinctive products and services and effectively and properly restructured business, the Company effectively controlled the ratio of mid-to-long-term corporate loans and increased the return on loans. As at the end of the reporting period, the ratio of outstanding mid-to-long term corporate loans of the Company was 49.92%, representing a decrease of 2.13 percentage points as compared with the beginning of the period. The average interest rate of corporate loans of the Company was 7.15%, representing a significant increase of 1.33 percentage points as compared with the beginning of the period.

- (3) Exploiting the market opportunities arising from the steady and sound development of the economy, the Company implemented state industrial financial policies and encouraged the provision of new funds to real economies, actively explored a business development model for green finance and emerging strategic industries, while it strictly scrutinized the provision of loan facilities to industries characterized by heavy pollution, high energy consumption and excessive production capacity, government-guaranteed projects and redundant projects of low productivity to prevent credit risks.

### 3. Corporate deposits

During the reporting period, the Company abandoned the simple traditional approach of relying on financial inputs and period data and continued to implement the principle of “taking deposits as the key foundation of the bank” by responding to changes of monetary policy in a timely manner and strengthening the research on liability business models. In addition to enhancing the settlement platform, the Company encouraged the strengthening of the deposit customer base by providing key products and services, such as transaction financing and cash management, and seeking new channels to increase the balance of deposits. In this way, mechanisms promoting organic growth of the deposits portfolio continued to be refined, and corporate deposits achieved sustainable growth.

As at the end of the reporting period, the balance of the corporate deposits of the Company was RMB1,345,258 million, representing an increase of RMB164,981 million, or 13.98%, as compared with the end of the previous year. In the reporting period, 56,552 new-developed, pure corporate deposit accounts of the Company brought a growth of RMB145,767 million in deposits, which accounted for 88.35% of the increase in corporate deposits. The increase in new deposits laid a solid foundation for the sound growth of liability business.

# Management Discussion and Analysis

The Company further set its transaction finance business as the main focus for the future development of bank financing business. Core competitiveness of the transaction finance business continued to be strengthened. The Company formulated specific plans and innovative models for the development and restructuring of its transaction finance business, proactively expanded the customer base in a batch-based manner, and boosted the overall sales performance to major customers, SMEs and retail businesses by streamlining industry chains. All businesses of the Company maintained rapid growth. In the reporting period, the transaction finance business of the Company amounted to RMB675,198 million with 7,052 regular customers and the balance of derivative deposits was RMB163,364 million, representing a significant increase of 94.68%, 72.16% and 51.32% respectively as compared with the previous year. As at the end of the reporting period, the balance of transaction finance business was RMB264,752 million with no non-performing loans, which took a lead in the market. In the 5th China International Logistics and Supply Chain Development Summit Forum (第五屆中國國際物流與供應鏈合作發展高峰論), the Company was awarded “China Influence-The Best Supply Chain Finance Bank 2010–2011” (影響中國2010–2011最佳供應鏈金融銀行). The reputation of the Company as an “expert on industry chain financial services” among customers, banks and industry associations continued to grow.

#### 4. Corporate non-interest income business

In the reporting period, the Company integrated intermediary business development and organizational restructuring. On the one hand, the Company further strengthened its traditional intermediary business, such as trade finance and bill rediscounting etc.. On the other hand, the Company focused on the development of businesses with low capital occupation and high return, including asset custody, corporate annuity and bills management. The Company also established a system of financing products for emerging markets which mainly comprised issuance and underwriting of debt financing instruments, structural financing and asset management. The combined effect of innovative products and services and a diversified business model boosted a fast increase in intermediary business of the corporate business segment in the reporting period, and the aggregated amount of net fee and commission income reached RMB8,946 million, representing an increase of 69.27% as compared with last year, which accounted for 61.91% of the net fee and commission income of the Company.

In respect of the investment banking business in emerging markets, the Company offered customers, particularly strategic NSOEs, comprehensive financial services focusing on investment and financing, as well as continued to improve the system of structural financing products. Through broadening varieties of direct financing and asset management services in the capital market, the Company provided more diversified consultation and financial advisory services and explored more channels for intermediary business. In the reporting period, the Company improved the internal sponsor team for the investment banking business in emerging markets, and put more efforts in business marketing and promotion, as well as further standardized the business management and operation model. The Company accelerated the replication of well developed business models and relevant marketing efforts, and focused on the trial operation of “Listing Express (上市直通車)” business to establish a new financial service model.

In respect of the asset custody business, the Company implemented its strategy of “diversification and specialization” and adopted the business models of “custody plus integrated financial services”. The Company strengthened its cooperation with well-known asset custody agencies to develop custody services for securities investment funds, equity investment funds, insurance bonds and wealth management companies to secure steady and rapid growth with quality products. As at the end of the reporting period, the assets held by the Company as custodian



(including safekeeping) amounted to RMB381,155 million, representing an increase of 83.12% as compared with the end of the previous year. Revenue from the custody business was RMB393 million, representing an increase of 104.69% as compared with last year. The size and performance of custody business of the Company achieved rapid growth and the Company was awarded “The Most Innovative Custody Bank in 2011” (2011年度最佳創新託管銀行) by the “Financial Money” magazine (《金融理財》).

In respect of corporate annuity funds business, the Company put strategic emphasis on the development of corporate annuity funds business and segmented target markets and encouraged product and marketing innovations. The Company also strengthened cooperation with external trustees and put more efforts into the integration of resources of the Bank, so as to drive the growth of corporate annuity business through joint marketing and leveraging its leading businesses. As at the end of the reporting period, 106,693 annuity accounts were managed by the Company, representing an increase of 73.37% as compared with the end of the previous year. The annuity funds under custody amounted to RMB4,652 million, representing an increase of 45.88% as compared with the end of the previous year.

In respect of debt financing instruments, leveraging the advantages of the market expansion, the Company targeted on its medium-sized quality customers, particularly strategic NSOEs, and exerted its efforts to develop collective bonds, short-term bonds and medium-term notes for SMEs. In the reporting period, a total of 81 issues of short-term financing bonds and medium-term notes amounting to RMB57,237 million were issued for 68 enterprises, which satisfied the financing demand of customers and also boosted the steady growth of net non-interest income.

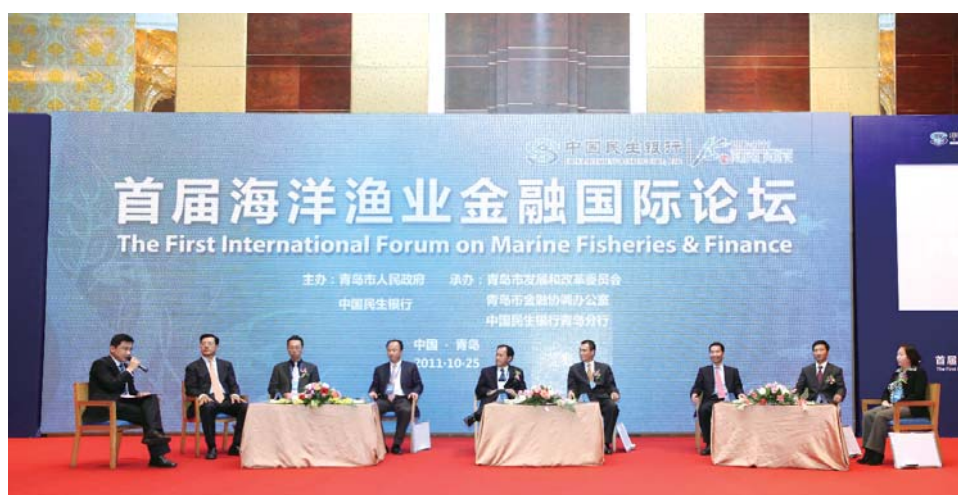
## 5. Operation of the SBUs

In the reporting period, all SBUs of the Company took proactive steps in response to the complicated and ever-changing external environment by enhancing risk prevention, exploring business opportunities in emerging markets, promoting the application of the “Financial

Stewardship” service model and implementing NSOE strategies. All lines of business at SBUs achieved steady growth and asset quality continued to improve.

### (1) Real Estate Finance SBU

During the reporting period, the Real Estate Finance SBU leveraged the advantages of its centralized professional operation and made necessary adjustments to cope with changes in the real estate market, persisting in its business philosophy of “solid foundation, stringent risk control, innovation and transformation”. The Company successfully adjusted its operation model and achieved satisfactory results of high quality and high return with effective risk control



# Management Discussion and Analysis

and successful innovation despite unfavourable market conditions. To meet the financial services demands of private real estate developers, in particular, the Real Estate Finance SBU promoted the Financial Stewardship service model that integrated internal and external financial resources, as well as conventional financial facilities and investment banking services for emerging markets, which significantly improved the overall customer service capability. As at the end of the reporting period, the deposits and loans of NSOEs of the Real Estate Finance SBU accounted for 88.89% and 92.04% of the total deposits and loans of the Company respectively.

As at the end of the reporting period, deposit balance and outstanding general loans of the Real Estate Finance SBU amounted to RMB46,943 million and RMB106,500 million, representing a decrease of 12.25% and an increase of 5.92% as compared with the beginning of the reporting period, respectively, with NPL ratio at 1.72%, and intermediary business revenue came to RMB1,063 million, representing an increase of 26.55% as compared with last year.

## **(2) Energy Finance SBU**

In the reporting period, the Energy Finance SBU conducted transformations in terms of market, products and geographical coverage. Based on in-depth study of the development trend of the industry, it actively explored new business opportunities and identified potential risks. The Energy Finance SBU restructured its business in a number of ways, which included expanding its customer base by acquiring strategic NSOEs, focusing on provision of loans to coal processing companies in its supply chain financing business, placing equal emphasis on asset management and investment businesses, and developing investment banking in emerging markets as a new point of revenue growth. In the reporting period, the Energy Finance SBU issued a total of 17 short-term bills and medium-term notes of RMB18,358 million. The business volume of overseas financing guarantees, M&A facilities, trusts and investment funds for emerging market amounted to RMB14,210 million. As at the end of the reporting period, the deposits and loans of NSOEs of the Energy Finance SBU accounted for 51.67% and 46.70% of the total deposits and loans of the Company, respectively.

As at the end of the reporting period, deposit balance and outstanding of general loans of the Energy Finance SBU amounted to RMB62,559 million and RMB100,051 million, representing an increase of 48.35% and 7.43% as compared with the beginning of the period, respectively, with NPL ratio at 0.54%, and intermediary business revenue came to RMB980 million, representing an increase of 148.73% as compared with last year.

## **(3) Transportation Finance SBU**

In the reporting period, the Transportation Finance SBU continued to implement comprehensive risk management concept and intensify the coordination, planning and management functions of its head office. The automobile segment, whose customers were mainly distributors, has further expanded into transaction financing from merely providing “loans for opening auto stores” (建店融資). The railway segment has further deepened the development of railway loading station and railway materials sectors on the basis of a railway supply chain finance mode. In respect of the shipping segment, the development of “loan packages for vessel building and leasing” (船生船) and the “contract financing” (租約融資) has sped up, and received good response from the market. The service model of “Financial Stewardship” aiming at NSOE customers has been implemented in stages and shown positive effects. Comprehensive services including industry chain financing, group financing and investment banking business in emerging markets were highly recognized by target customers. As at the end of the reporting period, NSOE customers of the Transportation Finance SBU with deposit and general loan accounts accounted for 52.10% and 36.42%, respectively.

As at the end of the reporting period, balance of deposits of the Transportation Finance SBU amounted to RMB40,826 million and outstanding general loans amounted to RMB46,082 million, representing an increase of 5.39% and 2.24% as compared with the beginning of the period, respectively. The NPL ratio was 0.26%. The revenue from intermediary business amounted to RMB835 million, representing an increase of 72.52% as compared with last year.

#### **(4) Metallurgy Finance SBU**

In the reporting period, the Metallurgy Finance SBU adhered to NSOE strategies of the head office to build up a professional team to provide “Financial Stewardship” services to core customers and establish strategic relationships with various NSOE customers. The Group explored business opportunities from major manufacturers and the whole industry chain by the introduction of innovative trade financing products to attract deposits from customers and to generate transaction fees. The Metallurgy Finance SBU effectively raised its capital income by expanding its investment banking business and fund raising activities. As at the end of the reporting period, NSOE customers of the Metallurgy Finance SBU with deposit and general loan accounts accounted for 75.74% and 62.38%, respectively.

As at the end of the reporting period, balance of deposits and outstanding general loans of the Metallurgy Finance SBU amounted to RMB44,924 million and RMB40,821 million, representing increases of 7.13% and 4.30% as compared with the beginning of the period, respectively. The NPL ratio was 0.20%. The revenue from intermediary business amounted to RMB679 million, representing an increase of 16.87% as compared with the previous year.

#### **(5) SME Finance SBU**

In the reporting period, the SME Finance SBU adhered to be a leading SME financial service provider in China by implementing the business concept of “regional specialties, batch development and name list-based sales” and providing all-round financial services to SMEs with growth potential by way of business models of comprehensive, unique and special products and services. The SME Finance SBU has successfully established the implementation framework of the host bank and resulted in the rapid growth of liability business on the basis of the increase in integrated contribution of customers through various unique services. Through optimizing SME business procedures and setting up a business platform, the Company improved the overall efficiency and services quality of SMEs business and pushed forward the steady development of SME business of the whole company.

As at the end of the reporting period, outstanding of loans of the SME Finance SBU amounted to RMB105,217 million, representing an increase of 32.30% as compared with the end of the previous year. Of these loans, 96.48% were short-term loans. The SME Finance SBU had 9,712 customers, representing an increase of 43.9% as compared with the end of the previous year. NPL ratio was maintained at a low level of 0.69%.

#### **(6) Trade Finance SBU**

During the reporting period, the Trade Finance SBU continued to develop with the concept of becoming a professional service provider of distinctive trade finance services, actively followed the policy of “professional, dedicated and specialized operations” and strived to become a financial solution provider and a major source of corporate finance. The Trade Finance SBU expanded room for its business development through distinctive management and established a stable customer base comprising strategic customers from the top 500 international enterprises and leading domestic

# Management Discussion and Analysis

NSOEs, and basic customers from medium-sized NSOEs. It has created complete product lines covering international settlement, international and domestic trade finance. It also boasted a correspondent bank network around the world and a smooth clearing channel to provide customers with comprehensive trade finance solutions which mainly included account receivables, import trade chain finance, letters of guarantee, value-added services and structural trade finance so as to satisfy customers' needs at different stages of the whole procedure in import and export activities.

As at the end of the reporting period, the Trade Finance SBU had 27 branches in 27 cities. Outstanding loans denominated in RMB and foreign currencies of the Trade Finance SBU amounted to RMB12,400 million and US\$2,720 million respectively. The revenue from intermediary business for the year amounted to RMB2,993 million. In the reporting period, the rapid growth of the Company's trade finance business attracted wide attention of domestic and overseas financial media. It was awarded the "2011 Best Bank of Trade Finance Innovation" (2011年中國最佳貿易金融創新銀行獎) by the UK Financial Times, and "The World's Best Factoring Market Development Award in 2011" (2011年度全球最佳保理市場發展獎) at the 43rd Annual Meeting of Factors Chain International ("FCI").

In the reporting period, the Trade Finance SBU fully implemented the strategy of "Host Bank" for target NSOE customers and had initially identified 85 customers. The Company established a "Trade Financier Club of China Minsheng Bank" (中國民生銀行貿易金融家俱樂部) to cultivate leading enterprises in different industries in the PRC. The Company was the first bank selected by the State Administration of Foreign Exchange ("SAFE") for a pilot scheme to support overseas merger and acquisition by domestic NSOEs by providing funds out of the foreign exchange reserves.

In the reporting period, its featured business including factoring and structural trade finance business of the Trade Finance SBU continued to take the leading position among domestic banks. In 2011, the volume of factoring business amounted to RMB86,100 million and a total of 211,800 transactions were recorded. The transaction volume of international dual factoring amounted to US\$965 million and a total of 5,926 transactions were recorded, ranking the second among domestic banks. The Company further determined the markets segmentation and set up its targets for the structural trade finance business, which mainly focused on long-term order financing, shipping financing and "going international" (走出去) financing, and demonstrated good development progress. The Trade Finance SBU also exerted its efforts to promote trade structured finance ("TSF") product series solutions including "transfer of cross-border in RMB" (跨境人民幣轉口) and "cross-border RMB settlements + entrusted borrowing" (跨境人民幣 + 委托貸款), and satisfied the capital needs of 47 customers with an aggregated amount of RMB6,000 million in the year.

## 6. Team-building of corporate business

In the reporting period, following the principle of "focusing on major strengths, organizing by levels of activity and applying with flexibility and appropriateness", the Company actively reformed its training methods by fully utilizing internal and external resources and enriching and improving the training system for corporate banking business. In its training programmes, the Company worked towards integration of the training with development strategies and operational management policies, with strengthening of skills for key businesses and for marketing, with the analysis of typical cases and advanced experience, and with the strengthening of the overall competence and cohesiveness of our business team. During the reporting period, the Company organized a total of 76 training programmes with 7,712 participants. Over four "Financial Stewardship" training programmes for NSOEs with 284 participants were held to facilitate the implementation of strategies for NSOEs. According to the specific situation of different regions and the business development targets, the Company organized 69 training programs in respect of major products for operating units with 7,306 participants. In addition, aiming to establish a fully functional core team, the Company jointly organized the

Selection of the Best Management Practices of Corporate Business (公司業務最佳管理實踐案例徵集評選活動) with the Harvard Business Review.

## (II) Retail Business

### 1. Retail loans

The Company offered various loan products to retail banking customers. In 2011, the Shang Dai Tong (商貸通) business continued to boost the rapid growth of retail loans and structural reorganization for the Company. As at 31 December 2011, total retail loans increased by RMB83,564 million, or 30.07%, to RMB361,449 million, as compared with the end of the previous year. Out of this amount, outstanding mortgage loans were RMB82,998 million, accounting for 22.96% of the total retail loans.

In 2011, the Shang Dai Tong business continued to grow rapidly. The outstanding loans of Shang Dai Tong exceeded RMB200,000 million. The size and quality of the customer base were also improved.

As at 31 December 2011, outstanding loans of Shang Dai Tong amounted to RMB232,495 million, representing an increase of RMB73,509 million or 46.24% as compared with the end of the previous year.

As at 31 December 2011, the total number of Shang Dai Tong customers was approximately 150,000, over 30% of which were VIP customers, reflecting an optimized customer structure. In respect of the return of loans, the interest rate structure of newly-issued loans has improved in 2011 with better loan quality than in the previous year. The average interest rate of newly-issued loans increased by 2.2 percentage points as compared with the previous year, representing a higher product profitability.

In 2011, the Company upgraded the MSE financial services to the formal 2.0 version, which achieved significant improvement in five aspects: Firstly, it broadened the scope of services by providing more choices in financing method, and launching various innovative functions in settlement, channel and wealth management that formed a diversified framework of MSE financial product system, marking the transformation from simple credit services to comprehensive financial services. Secondly, the Company further increased the proportion of loans without collateral in loan structure, such as guaranteed loans and credit facilities, to enable more MSE owners and individual industrial and commercial



# Management Discussion and Analysis

customers who were not able to provide collateral to access financial support. Thirdly, the Company improved the credit pricing system and realized the unification of customer value and risk identification to build long-term relationship with the customers. Fourthly, the Company enhanced its after-sale services and organized “Wealth Management Classes (財富大課堂)” to introduce knowledge on modern financial services to MSE owners and individual industrial and commercial customers. Fifthly, it optimized the operation mode by adopting “factory method (工廠化)” to enhance operational efficiency and service quality.

In respect of risk control over Shang Dai Tong loan business, the Company persisted in following the principles of the “Law of Large Numbers (大數法則)” to estimate the risk probabilities of specific industries. The Company selected industries suitable for launching Shang Dai Tong loan business to control risks. The core concept of MSE finance based on the “Law of Large Numbers” has proved to be practical after the launch of version 2.0. The NPL ratio remained low at 0.14% as at 31 December 2011.

## 2. Retail deposits

Deposits from retail customers of the Company mainly included demand deposits, time deposits and notice deposits, etc., which formed one of the important low-cost funding resources of the Company. In 2011, the retail deposits of the Company recorded a steady growth and the balance of savings deposits amounted to RMB286,356 million, representing an increase of RMB55,954 million, or 24.29%, as compared with the end of the previous year.

## 3. Debit card business

As at 31 December 2011, the Company had a total of 27,986,600 debit cards in issue, including 2,964,400 cards issued within the year. In 2011, the “Snoopy” Co-Branded Card issued by the Company and Sino-US Metlife Insurance Co., Ltd. (中美大都會保險公司) marked a good beginning. As at 31 December 2011, a total of 342,200 “Snoopy” Co-Branded Cards were issued.

In 2011, the Company continued to offer VIP customers the “5+N” VIP service system, covering services at airports, golf clubs, train stations, medical access and roadside rescue services.

## 4. Credit card business

In 2011, the profitability of credit card business further improved as the income from intermediate business, flexible/instalment payment business and automobile purchase by installment business as well as annual fees and commission recorded significant increases as compared with the previous year. In 2011, the Credit Card Centre further improved the business model of “Operation Group of Three” (“三人小組·聯合作業”) to strengthen the cooperation among sales, merchants and collection units. The Company promoted the development of card issuance, merchant partnership and asset management, the three major business lines of the credit card business, through innovations on products and services, business model, sales channels and risk management.

As at the end of 2011, the total number of credit cards in issue was 11.53 million. Transaction volume of credit card business was RMB177,520 million, representing an increase of 64.91% as compared with the corresponding period in the previous year. The year-end balance of receivables amounted to RMB38,551 million, representing an increase of 134.61% as compared with the end of last year.

# Management Discussion and Analysis

In 2011, the Credit Card Centre launched a dedicated credit card, Minsheng UnionPay In Card (民生•銀聯信用卡in卡), for young customers. To promote the issuance of In Card, the Company organized online selection campaign of endorser and provided various privileges 7 days a week with the support from Starbucks, Pizza Hut, Alipay, VELO, SEPHORA and hundreds of cinemas in many cities. In addition to In Card, in order to satisfy the financial needs of student studying in Japan, the Company Centre issued RMB and JPY denominated credit cards to students studying aboard in September 2011. At present, multi-currency Minsheng credit cards for students studying aboard provide the most variety of currency choices in the PRC, including the combination of RMB with USD, EUR, GBP, AUD, CAD and JPY and provide all financial functions as other Minsheng credit cards as well as services for overseas study. The use of credit cards of local currency outside the PRC can save the costs of currency conversion and the difference between bid and offer exchange rates. On the other hand, overseas expenses can be settled by RMB without the fuss of currency conversion. The Company also launched Minsheng Sohu Loving Home co-branded credit cards (民生搜狐愛家聯名信用卡) and Minsheng Yintai (Hefei) co-branded credit cards (民生銀泰(合肥)聯名信用卡) according to the needs of market expansion.

The brand of Minsheng Credit Card was widely recognized by the social community in 2011 and was honored with awards such as Excellent Model Bank by China's Banking Customer Service Centers (中國銀行業客戶服務中心 — 優秀示範單位獎), and was listed on the China's Leading Weibo Ranking in 2011 (2011中國微博領軍榜). It was also awarded the Best Marketing Practice in Financial Industry for 2010–2011 (2010–2011金融行業最佳效果行銷案例獎), and won the Third Prize in the Assessment on Supervision and Management (監管統計工作考核評比三等獎), 2010–2011 Best Performance Prize in Cases of Marketing (2010–2011金融行業最佳效果行銷案例獎), 2010–2011 Advanced Entity of Credit Investigation (2010–2011徵信工作先進集體) and Excellent IT Application Prize in China (中國IT應用卓越成就獎). Mr. Yang Ke, the President of the Credit Card Centre, was awarded The National Labor Medal for Financial Institutions (全國金融五一勞動獎章). As such, its core competitiveness was further enhanced.

## 5. Agency business

The Company offers services such as acting as sales agent of wealth management products, funds and insurance. The number of funds sold under its agency business reached 750, a leading number among its peers in the industry. The Company also cooperates with 29 insurance companies, to optimize the Company's insurance selling platform.

## 6. Customers and related activities

As at 31 December 2011, the Company had 21,976,100 retail customers, with a savings deposit balance of RMB286,356 million. In 2011, the financial assets of retail customers of the Company recorded rapid growth due to higher sales of wealth management products. As at 31 December 2011, the financial assets of retail customers amounted to RMB468,563 million, representing an increase of 48.04% as compared with the end of last year. Among the retail customers, 176,100 customers had individual financial assets of more than RMB500,000, and their total deposits amounted to RMB171,111 million, accounting for 59.75% of total retail deposits of the Company.

In 2011, the Company organized the Wealth Management Classes (財富大課堂), golf tournaments and sales of luxury products exclusively for our VIP and MSE customers. Positive comments were received from our customers. Customers were offered more personal financial services.

# Management Discussion and Analysis

In 2011, the Company was awarded The Best MSE Service Bank of 2011 (2011最佳小微企業服務銀行獎) in The Financial Institutions Value Ranking by The First China Business Post (2011年第一財經金融價值榜), the Best MSE Financial Service Bank in the Outstanding Competitiveness Ranking (卓越競爭力小微金融服務銀行獎) by China Business Operation Bulletin (中國經營報), The Best Supporter for MSE in 2011 (2011年最佳中小企業加油站獎) and The Most Innovative Financial Institution in 2011 (2011年金融產品創新獎) from Sohu.com (搜狐) and The Best Wealth Management Brand (最佳財富管理品牌) in The 9th China Finance and Economics Ranking in 2011 (2011年度第九屆中國財經風雲榜).

## 7. Private banking business

As at the end of the reporting period, the Company has established private banking agencies in 29 branches nationwide and the size of financial assets managed amounted to RMB68,400 million. The number of private banking customers amounted to 4,650 with income from intermediary business amounting to RMB289 million. The size of financial assets managed increased by 51.33%, number of private banking customers recorded a growth of 76.54%, and income from intermediary business recorded a growth of 110.95%.

In the reporting period, a customer-centric private banking team and a marketing model were established by the Company to cater to the needs of customers. To build a high-quality private banking service brand, the Company provides professional, comprehensive and exclusive services for such customers. The Company put great efforts in developing emerging businesses including private equity investment fund, integrated trust plan, secondary offering, private placement, capital integration and financing for acquisitions and mergers. The Company launched large-amount credit business and continued to enrich credit product portfolio to provide a diversified, open-end, personalized and specialized investment and financing platform for high-end retail customers, in order to enhance customer loyalty. The Company provided financial consultation services for high-end customers by offering market analysis and suggestions, as well as regular reports. The Company also established a diversified consultation service system covering taxation, law, insurance plans and art investment.

The Company speeded up the development of the private banking business in all respects in June 2011, adhering to its strategic target of being a “distinctive bank” and “efficient bank” and following the strategic positioning requirements of the Board in respect of high-end customers. A task team of “Wealth Growth Storm Version 1.0 (財富成長風暴1.0版) of Minsheng Bank” program was established to formulate the development plan of private banking for the coming three years, which clearly defined the strategy, positioning, division of responsibilities, incentive system and working process, and further streamlined and consolidated the procedures, teams, platforms and products.

In the reporting period, the Company was awarded The Best Private Bank in Fund Raising for VC/PE in 2011 (2011年度中國VC/PE基金募集最佳私人銀行) and the Best Private Banking Brand in the Golden Cauldron Award (金鼎獎).

In the coming three years, the Company will exert all efforts to integrate all resources to improve its wealth value-added services and distinctive non-financial services for customers, in order to achieve a remarkable development and create reliable brand for its private banking business. The Company strives to build its private banking strategies, together with the NSOE strategies and MSE strategies as three drivers for its business development.



## (III) Treasury business

### 1. Transactions

In the reporting period, the transaction volume of RMB bonds of the Company amounted to RMB3,373,097 million, representing a year-on-year increase of 21.32%, ranking the fifth in the market. Forward settlement and selling exchange transaction volume also reached US\$6,890 million, representing a year-on-year increase of 214.32%. Total volume of settlement and sale of exchange swaps and currency swaps amounted to US\$48,272 million, representing a significant increase of 155.69% as compared with the previous year. The total exchange transaction of customers amounted to US\$592 million, representing a year-on-year increase of 128.57%.

### 2. Investments

As at the end of the reporting period, the balances of the Company's investment amounted to RMB215,467 million, representing an increase of 17.07% as compared with the end of the previous year. In 2011, the Company's debt securities assets were on a stable growth track. The Company increased the gain of RMB debt securities investment through acquisitions and disposals based on price difference by accurate estimation of the domestic debt securities market trend. In addition, the Company sold part of its foreign currency denominated debt securities by taking advantage of the price hike of international debt securities thus effectively mitigating potential investment risk.

### 3. Wealth management

In 2011, the wealth management business of the Company strictly complied with all the relevant regulatory requirements. It focused on promoting the brand value of "Apex Asset Management" by strengthening its asset management and positioning itself as "Financial Stewardship". The Company strived to develop its business model as the "Smart Choice of Customer for Wealth Growth (大智之選, 大有之道)" and a system that established a win-win relationship between the Bank, customers and transaction counterparties. Through refining and reforming its system, procedures and management, the Company launched and implemented various cutting-edge strategies, such as the "integration of business processes (業務流程一體化)", "early risk control before business operation (風險控制前移)", and "proactive marketing activities (主動行銷, 從坐商到行商)", which enhanced its efficiency, management, services, teamwork and compliance.

In the reporting period, the number and size of wealth management products grew significantly. The number of new products launched amounted to 2,354, whilst the sales volume amounted to RMB764,300 million.

In the reporting period, the features of wealth management business of the Company include:

- (i) Timely changes in the direction of business development. By closely tracking and studying policies, the Company was capable of capturing market trend accurately. By quickly responding and reacting, the Company was capable of grasping business opportunities promptly. The Company focused on the research and development of wealth management products in affordable housing and securities.

# Management Discussion and Analysis

- (ii) Reputable wealth management business. Apex Asset Management launched by the Company obtained various awards, the brand value of which continued to raise. The awards included The Best Asset Management Bank 2010–2011 (2010–2011年度最佳資產管理銀行) by 21Century Business Herald (《21世紀經濟報道》); The Best Asset Management Bank of Excellent Competitiveness (卓越競爭力最佳資產管理銀行) by China Business (《中國經營報》); The Most Innovative Bank in Wealth Management (最佳理財創新銀行) by China Business News (《第一財經日報》); The Golden Pixiu Award in Financial Wealth Management (金融理財金貔貅獎) by Financial Money magazine (《金融理財雜誌社》); Golden Influence Brand (金牌影響力品牌) in the Top 10 Financial Wealth Management in China in 2011 (2011年中國金融理財TOP10總評榜) and the Golden Wealth Management (“金理財”) award for Excellent Wealth Management Brand in 2011 (2011年度優秀理財品牌獎) by Shanghai Securities News (《上海證券報》).
- (iii) Efficient regulation of the wealth management business. Monitoring by types and by level ensured stable business operation and strengthened the management of the wealth management products, thus securing healthy development of the wealth management business.

## 4. Trading in gold and other precious metals

In 2011, the Company's trading volumes of gold and silver at the Shanghai Gold Exchange amounted to 103.38 tons and 10,103.9 tons, respectively, and the trading volume of gold in Shanghai Futures Exchange amounted to 48.04 tons. The total trading volume was RMB127,779 million. In terms of on-floor trading value, the Company was the tenth largest dealer at the Shanghai Gold Exchange and also one of the most active dealers at the Shanghai Futures Exchange.

During the reporting period, the Company sold 1,200 kg gold bars of its own brand, representing an increase of 130% as compared with the previous year. The outlook of the market remained positive.

## (IV) E-banking services

During the reporting period, the e-banking business of the Company maintained its growth momentum and recorded a total transaction volume of RMB11,877.5 billion, representing an increase of 45.22% as compared with the previous year. Online transaction replacement rate exceeded 80%, while number of transaction equaled four times of counter transaction, demonstrating that e-banking has become the major channel of customer transactions. The accumulated number of corporate e-banking accounts and individual e-banking accounts amounted to 182,000 and 4,433,000, representing increase of 45.18% and 37.41% as compared with the end of last year, respectively.

The Company focused on settlement services for MSEs in the reporting period and introduced the online banking for merchants to offer MSEs featured services, such as centralized management of private accounts, partner accounts, SMS payments and remittance by email, so as to facilitate their payments and settlements. The Company also expanded e-banking into business circles to promote relevant products as well as facilitated the settlement of MSEs. The coverage of online banking for MSEs with loans reached 77.20%, representing a transaction replacement rate of 84.61%. The Company firstly launched cross-bank cash sweep business to provide customers an effective and convenient way to collect funds from other banks so as to enhance their utilization efficiency. As at the end of the reporting

# Management Discussion and Analysis

period, customers of the online cross-bank cash sweep transactions reached 44,000 and the amount of cash sweep transactions exceeded RMB30,000 million during the year. The Company actively developed the wealth management business and attracted customers to purchase wealth management products by offering online banking exclusive wealth management and night market wealth management. As a result, the sales volume of the wealth management under online banking exceeded RMB470,000 million, accounting for 75% of the sales volume of low-risk wealth management products of the Company. In addition, the Company cooperated with China UnionPay to establish third-party cross-bank bulk collection and payment agency business, so as to automatically transfer settlement funds of corporate customers at other banks to their account in the Company. It also launched the Shang Dai Tong cross-bank online withheld payment service, which facilitating the settlement of MSE customers by permitting them to repay their balances in the Company with their funds at other banks automatically.

All indicators of customer services of the Company remained at high level during the reporting period, maintaining its leading position in the industry. The total incoming-calls through hotlines reached 31.799 million, among which “95568” hotline received 29.765 million in-coming calls while “4006895568” corporate customer hotline and “4006895568” MSE customer hotline received 1.873 million and 161,000 incoming calls, respectively. The Company recorded customer satisfaction rate of 99.42%, service level of 94.62%, call-in connection rate of 98.45% and VIP call-in connection rate of 99.44%.

During the reporting period, the Company introduced “95568” after-sale services to MSEs, and provided standardized services, including follow-up call upon first call, follow-up call, due notifications and collection reminder by phone, as well as customer services on an ongoing basis within the loan period. Targeting at the customers of “Happy Payment (樂收銀)”, the Company launched online services for payment accounts, resulting in significant improvement in business efficiency by shortening handling time from three days to three minutes. The Company also introduced “95568” customer maintenance and upgrading services to general customers such as customer care services, wealth management product recommendation, prestige services for loyal customers, associated borrowings and loans and fund telemarketing. During the year, voluntary calls made to customers exceeded 5 million. In 2011, China Banking Association released its first report on the operating data of customer service centers of its 29 members. According to the report, the Company ranked the first in the industry in terms of the call-in connection rate and service quality and the fourth in terms of customer satisfaction rate.

During the reporting period, the e-banking business of the Company received various awards from third-party authoritative organizations in different contests and campaigns. The Company received the 2011 Award for the PRC Online Bank with Best Security (2011年中國網上銀行最佳網銀安全獎) from the China Financial Certification Authority (“CFCA”), the 2011 Best Online Bank (2011年最佳網上銀行) from Money Weekly (《理財週報》), the 2011 Best Bank in Electronic Banking (2011年度最佳電子銀行獎) and the 2011 Bank of Best Service (2011年度最佳服務銀行) from Eastmoney.com (東方財富網). The Minsheng U-key was selected as the 2011 Best Online Bank Safety Product (2011年度最佳網上銀行安全產品) while the Company was awarded the 2011 Best Banking Financial Service Centre (2011年度最佳銀行金融服務中心) in the 5th China Electronic Finance Development Annual Conference. The Company also received the honour of the Best Service Innovation in China (中國最佳服務創新) in the 6th Best Customer Service Award.

# Management Discussion and Analysis

## (V) Performance of subsidiaries

### 1. Minsheng Financial Leasing Co., Ltd.

Minsheng Financial Leasing Co., Ltd. ("Minsheng Leasing"), one of the first five financial leasing companies in the banking sector approved by the State Council, was established in April 2008. After the capital injection in December 2011, the registered capital increased from RMB3,200 million to RMB5,095 million whilst equity interest held by the Company in Minsheng Leasing changed from 81.25% to 51.03%.

As at the end of the reporting period, the total assets of Minsheng Leasing amounted to RMB61,223 million, representing an increase of 47.59% as compared with the end of the previous year. The net profit during the reporting period amounted to RMB858 million, representing an increase of 73.33% as compared with the previous year. The weighted-average profit rate of net asset was 19.60%, representing an increase of 6.23 percentage points as compared with the previous year. There was no non-performing asset. Each operation indicator ranked top among domestic peers.



Minsheng Leasing adhered to a professional and characterized development and set up a mode of development focusing on featured business such as aviation and shipping. In the business of leasing of business jets, it has boasted an international and domestic leading business jet fleet with 78 jets of Gulf Stream and Bombardier. In the business of ship leasing, it also took a lead in the domestic market in terms of domestic shipping with 133 ships of different types with a total deadweight capacity of 4.47 million tons. The businesses of Minsheng Leasing and the Company complemented each other, raising the competitiveness of the Group.

The vigorous business development of Minsheng Leasing developed rapidly and received strong recognition from the industry. The awards it obtained included The Best Financial Leasing Company of the Year (年度最佳金融租賃公司) by Chinese Financial Institutions Gold Medal List 2011 (2011年中國金融機構金牌榜); The Financial Leasing Company of the Highest Brand Value in 2011 (2011最具品牌價值金融租賃公司) by the 6th Asia Annual Finance Summit (第六屆亞洲金融年會); The Marketing Award in 2011 (2011年度營銷大獎) by the Marketing Ceremony of the First Financial Daily (第一財經營銷盛典大會); and the Top 10 Excellent Financial Leasing Enterprises (融資租賃十佳企業) by the 2011 China Financial Leasing Annual Meeting (2011年中國融資租賃年會評選).

### 2. Minsheng Royal Fund Management Co., Ltd.

Minsheng Royal Fund Management Co., Ltd. ("Minsheng Royal Fund") is a sino-foreign fund management joint venture established under the approval of the China Securities Regulatory Commission ("CSRC"). It was established in November 2008 with a registered capital of RMB200 million. As at the end of the reporting period, 60% equity interest of Minsheng Royal Fund Management was held by the Company.

# Management Discussion and Analysis

As at the end of the reporting period, the total assets and net assets of Minsheng Royal Fund Management were RMB72.99 million and RMB40.70 million, respectively. The operating income and loss were RMB50.58 million and RMB29.93 million, respectively. The asset managed by six open-ended funds under Minsheng Royal Fund Management amounted to RMB5,166 million, representing an increase of 96 % as compared with the end of the previous year. Among 66 fund companies in the PRC as at the end of November 2011, Minsheng Royal Fund was ranked the 55th in terms of asset scale, up from 58th as at the end of 2010.

To face the intensifying competition, Minsheng Royal Fund reorganized its operation teams by adding key members to its management. It strengthened its product research and development so as to diversify its products. Minsheng Royal Fund also improved its sales capability and introduced new funds to promote the overall development of its businesses. Supported by the main sales channel of Minsheng Bank, the initial issue of Minsheng Royal Prosperous Industry Fund (民生加銀景氣行業基金), the sixth fund launched by Minsheng Royal Fund, raised RMB3,199 million, the highest record of a new product of Minsheng Royal Fund for three years since its establishment and was the largest equity fund launched in the second half of 2011.

### 3. Minsheng township banks

Minsheng township banks collectively refer to the township banks initiated and established by the Company. With centralized risk control and professional support of the Company, Minsheng township banks actively explored business models with local characteristics for SMEs (including micro enterprises) as well as financial business in rural areas. As an effective extension of the Company's business strategies for NSOEs and MSEs, it boosted the expansion of market shares of the Company in various counties and towns. The Company accelerated the establishment of township banks in the reporting period, with 9 township banks set up in Hubei, Shanghai, Shandong, Jiangsu, Hebei, and Fujian. As at the end of the reporting period, the Company established a total of 18 Minsheng township banks, outstanding deposits and outstanding loans of which in aggregate were RMB10,026 million and RMB6,866 million, respectively. Net profit after tax in aggregate amounted to RMB190 million. 9 township banks recorded



# Management Discussion and Analysis

profits after operation of more than a year. Shanghai Songjiang Township Bank ranked the top in terms of asset scale and profitability among the township banks in China, whereas Cixi Minsheng Township Bank was named the Top 10 Township Banks (首屆十佳村鎮銀行) by the China Academy of Regional Finance (中國地方金融研究院).

In the reporting period, the Company deepened the principle in developing township banks as “consolidated and standardized development, centralized risk control, sharing of resources and flexible operation with its own characteristics”, and prioritized risk control in township bank management. As at the end of the reporting period, assets quality of the township banks was satisfactory. No operation accident was recorded throughout the year.

## X. Risk Management and Management of Consolidated Financial Statements

The guiding principle of the Company’s risk management regime is “Creating Value by Managing Risks”. Its risk management system focuses on quality and effectiveness with the flexibility to deal with different businesses in terms of size or scale. The objective of the risk management of the Company is to enhance its risk management capability by adopting the New Basel II Accord and the establishment of a comprehensive risk management system, to support business development and strategic restructuring, to strengthen core competitiveness, to safeguard the long term interests of employees and customers so as to maximize its shareholder value.

### (I) Credit risk

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

The credit risks of the Company are governed by the credit policy and technical support platform jointly developed by the Risk Management Department, Credit Assessment Department, Asset Monitoring and Control Department, Legal Affairs and Compliance Department and Asset Custody Department under the coordination of the Risk Management Commission. The risk management system covers the procedures of pre-approval investigation, approval review, post-loan management, collection and preservation of collaterals. Credit risks of on and off-statement items are also strictly controlled.

At the beginning of the year, the Company issued its 2011 Guiding Opinion on Risk Policy (2011年度風險政策指導意見), pursuant to which, the Company formulated its basic policy direction of restructuring, enhancing revenue and maintaining quality to promote development in connection with the need of strategic transformation of the Company according to the comprehensive and systematic analysis and forecast of the economic and financial trend of the world and China in 2011 as well as major risks in the general economic and financial operations and the impacts on the Company contained thereto. The guiding opinion specified the minimum criteria for approval and established a system covering policies relating to industries, regions, products and customers based on the rating of different industries and regions. By adopting risk limits and other management measures, the Company managed the customer accounts of key industries by categories and invested credit resources effectively to optimize the balanced development in its efficiency, quality, structure and scale of business.

In respect of the implementation of the New Basel II Accord in credit risk management, the Company established and applied a ranking and limit management system for its non-retail customers and designed its debt rating system as well as relevant policy system. Internal rating of retail business was carried out smoothly. Quantification of risks continued to improve.

## (II) Liquidity risk

Liquidity risk refers to the risk of a commercial bank which is unable to obtain sufficient funds at reasonable costs in a timely manner to cope with increase in assets or fund debt obligations despite its ability to settle the debt. The Company's objective in liquidity risk management is to ensure that it is able to meet all payment obligations and fund all operations in accordance with its development strategy. To this end, the Company effectively identifies, measures, monitors and controls its liquidity risk to strike a balance between risk and income.

Facing the tightening monetary policy in 2011, the Company adopted a proactive liquidity management strategy based on the analysis of general economic conditions, market interest rate trend and development of monetary policy and adjusted its liquidity risk management policies accordingly. The Company also improved its cash flow management. The Company managed the liquidity risk through reasonable capital utilization, accurate cash flow measurement, proactive allocation of assets and dynamic adjustment of liquidity. All major liquidity risk control and limit indicators, such as liquidity coverage ratio and net stable funding ratio, met regulatory requirements and the targets set by the Company at the beginning of the year. The Company not only avoided the impacts of significant market volatility, but also achieved rapid growth in funds business by making use of the opportunity of market volatility.

## (III) Market risk

Market risk refers to the risk of market changes having adverse effects on the values of assets and liabilities or the net income. The Company manages its interest rate risk, exchange rate risk and precious metal transaction risk in accordance with the requirements of the Guidelines of Market Risk Management of Commercial Banks (商業銀行市場風險管理指引), the Guidelines of Internal Control of Commercial Banks (商業銀行內部控制指引), the Guidelines of Stress Tests of Commercial Banks (商業銀行壓力測試指引), and the Guidelines of Fair Value Supervision of Commercial Banks (商業銀行公允價值監管指引) promulgated by the CBRC and by reference to the New Basel II Accord. The Company has also formulated and optimized a management system for market risk through regulation, monitoring and reporting measures to govern authorization, credit extension and risk limit of credit. The system was also further improved.

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

The Company measures the interest rate risk of its trading accounts by using duration analysis, sensitivity analysis, stress test, risk value and scenario analysis. The Company effectively controls the interest rate risk of its transaction accounts by establishing risk limit in respect of sensitivity, duration, exposure and stop-loss, etc. As the measurement of the risk of trading accounts was improved and in view of the development of trading business, the Company optimized and adjusted the risk approval procedures of trading accounts in 2011 to allow the risk limit and approval procedures to be more effective in market risk control.

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

# Management Discussion and Analysis

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

In 2011, to centralize the management of market risk, the trading business of Shanghai trading centre was incorporated into the market risk management system of the Bank. Risk monitoring and capital investment measurement were conducted for the transactions made at the Shanghai Trading Center. The Company also explored the market risk management of the deposit-and-loan business, capital business and securities investment business in order to establish a comprehensive market risk management system.

## **(IV) Operational risk**

Operational risk refers to the risk of loss resulting from incompleteness or faults in internal procedures, human error and information technology (“IT”) system failure, or external events. The operational risk of the Company mainly comprises internal and external fraud, employment system, safety of working places, events related to customers, products and operation, damages of tangible assets, interruption of business and failure of IT system.

With implementation of the New Basel II Accord, the Company devoted to establishing mechanisms for an operational risk management system as required by the New Basel II Accord in 2011. A risk management system of the Company has been set up based on the relevant regulatory requirements of the new Basel II Accord and with reference to the best practice of foreign and domestic peers, which covers the basic policies for operational risk, management tools, capital measurement, outsourcing risk management and business continuity management. In order to maintain a healthy and sustainable operation, the Company has established and implemented relevant systems.

In 2011, the IT risk management standard was further improved. The Company restructured the framework of the IT risk management system and established an IT risk management commission to organize the IT risk management of the Bank. The IT risk management policies and system and management procedures were further optimized. The identification, evaluation, control and monitoring tools for IT risk management were in place to identify, and evaluate the IT risks of the Company and control measures were also implemented.

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

The Company adheres to the mission of risk prevention and value enhancement in carrying out anti-money laundering work. With an emphasis on an internal control system for anti-money laundering, the Company relies on technological system, regulatory policies and risk prevention guidelines to facilitate the implementation of anti-money laundering measures principally by its branches. The Company has established a training and communication platform and set up a professional team comprising anti-money laundering experts in order to ensure the smooth implementation of anti-money laundering work and create a positive brand image of anti-money laundering.



# Management Discussion and Analysis

In 2011, the Company focused on strengthening the following aspects of anti-money laundering management. Firstly, the Company continued to optimize its anti-money laundering management system. Secondly, the Company provided training for its anti-money laundering professional team at different levels. Thirdly, the Company optimized and readjusted the monitoring and reporting systems for anti-money laundering by fully enhancing the technological standard of its anti-money laundering work. Fourthly, the Company adopted various measures improve the quality of the suspicious transaction reports.

## **(VI) Management of consolidated financial statements**

With the continuous progress of operation integration by the Company, the management of the consolidated financial statements has been brought up to the important agenda of the Company. Strengthening the management of consolidated financial statements is an effective way to enhance the overall management standard of the Company and to prevent the spread of risk within the Group. In 2011, the Company launched and implemented the management of consolidated financial statements in accordance with the regulatory requirements, and has achieved certain progresses.

Firstly, the Company established an initial organizational structure for management of the consolidated financial statements by setting up a management system, which comprised four levels, namely the Board of Directors, Senior Management, a department managing consolidated financial statements and the subsidiaries of the Company to clarify the duties for each party and the reporting procedure.

Secondly, the Company pushed forward the establishment of policies for the management of consolidated financial statements. The Company formulated the Provisional Measures on Management of Consolidated Financial Statements of China Minsheng Bank (《中國民生銀行併表管理辦法(試行)》) and relevant regulations in accordance with relevant provisions under the Provisional Guidelines on Supervision over Consolidated Financial Statements of Banks (《銀行併表監管指引(試行)》) promulgated by the CBRC, in an aim to complete the policy system for the management of consolidated financial statements.

Thirdly, the Company formulated plans for setting up information system for management of consolidated financial statements. The Company included such information system into its IT construction plan. By building an information reporting platform covering all subsidiaries, it will gradually set up a information system for management of consolidated financial statements satisfying all requirements of the internal and external management.

## **XI. Prospects and Measures**

In 2012, the new changes of the economic and financial environment will bring opportunities and challenges to operation of the banking industry. Structural adjustment of economy and financial market reform in China will advance to a new level, which will be favorable to refine the financial system and promote the banking industry to better support the development of the real economy, whilst speeding up its own transformation and adjustment. With the implementation of effective fiscal policies and healthy currency policies, reasonable liquidity of the banking industry can be maintained with accelerated structural optimization and better operation efficiency. Moreover, the increasing uncertainties in the economy, stricter financial regulation and intensifying competition among banks will pose new challenges to the strategy implementation, business development and risk control of the banking industry that require a higher level of operation management.

# Management Discussion and Analysis

In 2012, the Company will comply with the decisions of the economic and financial business conferences of the central government by enhancing its reforms and innovation and speeding up its resources integration. With its accentuated characteristics, problem-solving capacity and solid foundation, the Company will improve its management with an aim to develop into a “distinctive bank” and “efficient bank” to ensure the successful implementation of the “Second Take-off” strategy. The Company will adopt the following measures to increase its value:

1. The Company will encourage learning and research to cope with changes in the internal and external environment. The Company will conduct fundamental research to closely keep track of external changes of the economic, financial, regulatory and market conditions and carry out its three main strategic businesses focusing on NSOEs, MSEs and high-end customers. In-depth research on customers, industries and product services will be conducted to cater for customers’ needs. The Company will speed up the establishment of learning-based and research-based banking operation to facilitate orderly implementation of strategies. While maintaining steady growth, the Company will develop its distinctive characteristics and enhance its efficiency.
2. The Company will establish an integrated service system by launching reinforced strategic businesses. The Company will actively carry out its three main strategic businesses focusing on NSOEs, MSEs and high-end customers. By integrating resources, creating new products and service model, consolidating and enlarging strategic customer base, and coordinating developments, the Company will strive to establish a customer-centric comprehensive service system and a distinctive brand image.
3. The Company will carry out extensive enhancement of its MSE financial services to further increase customers’ satisfaction. It will fulfill the needs of MSEs by product innovation, sales channel extension and customer base enlargement. The Company will establish a “credit factory” (信貸工廠) and set up “special branches” (特色支行) to provide batched and professionalized operations. To upgrade the settlement and after-sale services for MSEs, the Company will implement effective risk control measures and provide all-round modern financial services for MSEs.
4. The Company will improve the model of Financial Stewardship to provide comprehensive services for NSOEs. To cater to the need of economic transformation and grasp the development opportunities of non-state-owned economy, the Company will put emphasis on developing the sectors highly involved with the national plans, domestic needs and supported mainly by the 12th Five-Year Plan. Based on its Financial Stewardship and Host Bank (主辦行) services, the Company will explore a sustainable financial development model for NSOEs. It will provide customers with professional financial services characterized by its smart financing management (“融資 + 融智”) and its competitive edges of commercial and investment banking (“商行 + 投行”).
5. The Company will optimize the service model of private banking and expand high-end retail business. The Company will adhere to its three-year private banking development plan by facilitating the coordination between corporate banking and private banking businesses and the interaction among its head offices and branches. It will develop business cooperation with banks and professional institutions and launch innovative and exclusive private banking products to high-end customers for wealth management diversification in order to satisfy the needs of private banking customers.

# Management Discussion and Analysis

6. The Company will carry out comprehensive service upgrade and facilitate the growth of intermediary business. It will improve the quality of featured business (including wealth management, bills, trade finance, e-banking, credit card and custody) and product services to strengthen the competitive edge of the brand for sustainable and stable revenue growth of its intermediary business.
7. The Company will enhance liability management to maintain a healthy balance sheet. The Company will review its liability structure and promote the marketing of fiscal deposits and general deposits. It will implement the integration of various businesses and customers' resources. It will optimize its performance assessment and incentives to promote the cross selling of settlement and deposit services and actively develop basic products such as property finance, trade finance and individual wealth management. It will further expand and consolidate its deposit business to maintain its stable development.
8. The Company will build a solid foundation to maintain operation efficiency and effectiveness. It will continue the establishment of IT platform to provide technological support for its strategic transformation and service enhancement. The Company will strengthen its organizational construction, in particular, to facilitate its specialized units for MSEs. It will improve the development of new sales channels including online banking and mobile banking to build a comprehensive and all-dimensional solid service channel and enlarge its service coverage to satisfy different needs of customers.
9. The Company will comply with regulatory requirements and enhance overall risk management. The Company will keep its risk management in line with regulatory requirements and its business development by speeding up the establishment of overall risk management systems and projects under the New Basel II Accord. The Company will reinforce its dynamic risk control to enhance its risk prevention in significant business aspects such as real estate and financing platform. The Company will also optimize credit structure in order to ensure asset quality.
10. The Company will deepen reforms and innovation to improve its management. It will strengthen its capital management to improve the efficiency of its capital expenditure and resources allocation. The Company will continue to facilitate the SBU reform to strengthen the process-based banking system and further improve cross-selling mechanism and business operation model. It will also strive to promote the application of three strategic instruments, namely Voice of Customers, Six Sigma Management and Balanced Scorecard for efficient implementation of its strategies.

In conclusion, to cope with changes in the internal and external environment, the Company will carry out three major strategies for better and faster business development. It will further carry out process-based banking reform and enhance the overall subtle management level in order to accomplish all business tasks planned for the year. It will also continue to promote the construction of "distinctive bank" and "efficient bank" based on the overall planning of the strategic transformation of the "Second Take-off" with the aim to maximize the Company's value.

# Changes in Share Capital and Information on Shareholders

## I. Changes in Shares

### (I) Changes in shares:

(Unit: Share)

|  | 31 December, 2010 |                | Changes over the reporting period (+,-) |                                  | 31 December, 2011 |                |
|--|-------------------|----------------|---|----------------------------------|-------------------|----------------|
|  | Number of shares  | Percentage (%) | Profit distribution                     | Release of restrictions on sales | Number of shares  | Percentage (%) |
| I. Shares subject to restriction on sales      | —                 | —              |   |                                  | —                 | —              |
| 1. State-owned shares                          | —                 | —              |   |                                  | —                 | —              |
| 2. State-owned legal person shares             | —                 | —              |   |                                  | —                 | —              |
| 3. Other domestic shares                       | —                 | —              |   |                                  | —                 | —              |
| Of which:                                      |                   |                |   |                                  |                   |                |
| Domestic legal person shares                   | —                 | —              |   |                                  | —                 | —              |
| Domestic natural person shares                 | —                 | —              |   |                                  | —                 | —              |
| 4. Foreign investor shares                     | —                 | —              |   |                                  | —                 | —              |
| Of which:                                      |                   |                |   |                                  |                   |                |
| Overseas legal person shares                   | —                 | —              |   |                                  | —                 | —              |
| Overseas natural person shares                 | —                 | —              |   |                                  | —                 | —              |
| II. Shares not subject to restriction on sales | 26,714,732,987    | 100            |   |                                  | 26,714,732,987    | 100            |
| 1. Ordinary shares in RMB                      | 22,587,602,387    | 84.55          |   |                                  | 22,587,602,387    | 84.55          |
| 2. Domestic listed foreign invested shares     | —                 | —              |   |                                  | —                 | —              |
| 3. Overseas listed foreign shares              | 4,127,130,600     | 15.45          |   |                                  | 4,127,130,600     | 15.45          |
| 4. Others                                      | —                 | —              |   |                                  | —                 | —              |
| III. Total number of shares                    | 26,714,732,987    | 100            |   |                                  | 26,714,732,987    | 100            |

Since the listing of our Shares and as at the end of the reporting period, the Company had maintained sufficient public float as stipulated under the Hong Kong Listing Rules.

### (II) Shares subject to restriction on sales and restrictions

During the reporting period, no shareholder of the Company held shares subject to restriction on sales.

## II. Issuance and Listing of Shares

### (I) Issuance of shares in the three years immediately before the end of the reporting period

The Company launched its initial Public Offering of ordinary shares dominated in RMB (A shares) on 27 November, 2000.

On 26 November 2009, the Company successfully listed 3,321,706,000 overseas listed foreign invested shares (H shares). On 18 December 2009, The Company exercised an over-allotment option of H share at the price of HK\$9.08 to allot 117,569,500 H shares. The Company raised a total of RMB26,750 million (net of commission and transaction levy). After such H share offering, the total share capital of the Company amounted to 22,262,277,489 shares.

### (II) Total number of shares and shareholding structure during the reporting period remained unchanged.

### (III) During the reporting period, the Company had no employee shares.

## III. Issuance and Listing of Convertible Bonds

Subject to the approval by the CSRC (Zheng Jian Fa Xing Zi [2003] No.13), the Company issued RMB4,000 million convertible bonds on 27 February 2003, which were listed on the Shanghai Stock Exchange on 18 March 2003. The offering document and listing announcement were published on China Securities Journal, Shanghai Securities News and The Securities Times on 21 February and 13 March 2003, respectively.

The convertible bonds became convertible on 27 August 2003. The conversion period was terminated and the bonds were delisted on 26 February 2008. As of the close of the market on 26 February 2008, RMB3,999,671,000 of “Minsheng Convertible Bonds” (100016) had been converted into 1,616,729,400 “Minsheng Bank” shares (600016) (including bonus shares and shares from rights issue), representing 11.17% of the total share capital of the Company, and convertible bonds of RMB329,000 remained unconverted, representing 0.008% of the total “Minsheng Convertible Bonds” issued. The principal and interests of these unconverted bonds were due and repaid in full on 26 February 2008.

## IV. Issuance of Financial Bonds, Subordinated Bonds and Hybrid Capital Bonds

Pursuant to the approval by the People's Bank of China ("PBOC") in its administrative permission (Yin Shi Chang Zhun Yu Zi [2006] No.3) and the approval by the CBRC (Yin Jian Fu [2006] No. 18), financial bonds with a total of RMB22,000 million were issued by the Company through a public offering in the interbank bond market in two installments in 2006 and 2007 respectively. Of which, the financial bonds totaling RMB10,000 million at a fixed interest rate of 2.88% for a term of three years were issued in 2006. As at 22 May 2006, proceeds from the RMB10,000 million financial bonds, net of expenses of issuance, were fully credited to the account of the Company, and this public offering was thus completed. As at 22 May 2009, the RMB10,000 million financial bonds issued in 2006 were due and repaid in full.

The financial bonds totaling RMB12,000 million were issued in 2007, of which the financial bonds of RMB6,000 million for a term of three years and the financial bonds of RMB6,000 million for a term of five years were not redeemable by the issuer before expiry. These bonds had floating rates and the par interest rate per annum was based on the sum of a benchmark rate plus a basic spread. The benchmark rate was the one-year deposit rate on the previous interest payment date, as published by the PBOC. The initial rate and the current benchmark rate of the three-year floating rate financial bonds were 3.67% and 3.06% respectively, with an initial basic spread of 0.61%. The value date of the financial bonds was 22 June 2007 and the expiry date fell on 22 June 2010. The interests were paid on an annual basis. The initial rate and the current benchmark rate of the five-year floating rate financial bonds were 3.82% and 3.06% respectively, with an initial basic spread of 0.76%. The value date of the financial bonds was 22 June 2007 and the expiry date will fall on 22 June 2012. The interests are paid on an annual basis. As at 22 June 2007, the proceeds from the RMB12,000 million financial bonds, net of expenses of issue, were fully credited to the account of the Company, and this issuance was thus completed. As at 22 June 2010, the RMB6,000 million financial bonds of the Company issued in 2007 for a term of three years were due and repaid in full.

Pursuant to the approval by the PBOC (Yin Fu [2004] No.59) and the approval by the CBRC (Yin Jian Fu [2004] No.159), the Company issued subordinated bonds totaling RMB5,800 million, comprising RMB4,315 million bonds at a fixed rate of 5.1% and RMB1,485 million floating rate bonds based on an initial rate of 4.65% (a benchmark interest rate of 2.25% plus a basic spread of 2.4%), through a private placement in the interbank bond market. Where the PBOC revises its benchmark interest rates, the interest rate of the floating rate bonds will be adjusted accordingly. These subordinated bonds were issued for a term of ten years and the interests were paid on an annual basis. The proceeds from the RMB5,800 million subordinated bonds, net of expenses of issue, were fully credited to the account of the Company and thus this private placement was completed on 8 November 2004. According to applicable rules, the proceeds from RMB5,800 million were fully accounted as supplementary capital. On 2 November 2009, the Company exercised the early redemption option to redeem the subordinated bonds of RMB5,800 million in full.

## Changes in Share Capital and Information on Shareholders

Pursuant to the approval by the PBOC (Yin Fu [2005] No.112) and the approval by the CBRC (Yin Jian Fu [2005] No.309), the Company issued subordinated bonds totaling RMB1,400 million at fixed interest rate for a term of ten years through a private placement in the interbank bond market. Such bonds are redeemable at the discretion of the issuer at the end of the fifth year, with an initial interest rate of 3.68%. If the Company does not exercise any redemption option at the end of the fifth year, the interest rate for the remaining five years would be increased by 300BP on top of the interest rate applicable to the first five years, and the interests are paid on an annual basis. On 26 December 2005, the proceeds from the RMB1,400 million subordinated bonds, net of expenses of issue, were fully credited to the account of the Company, and this private placement was thus completed. According to applicable rules, these proceeds of RMB1,400 million were fully accounted as supplementary capital. On 23 December 2010, the Company exercised the early redemption option to redeem the subordinated bonds of RMB1,400 million in full.

Pursuant to the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2006] No.27) and the approval by the CBRC (Yin Jian Fu [2006] No.80), the Company issued a total of RMB4,300 million hybrid capital bonds for a term of 15 years through a public offering in the interbank bond market. Subject to the approval by the CBRC, the Company might exercise a one-off redemption of all or part of the bonds at par value after the expiry of the tenth year but before the maturity date of the bonds. The bonds comprised fixed rate bonds and floating rate bonds. The fixed rate bonds, amounted to RMB3,300 million and were issued at an initial interest rate of 5.05% and the interest rate for the remaining five years will increase by 300BP on top of the initial interest rate applicable in the first ten years if the Company does not exercise any redemption option. The floating rate bonds amounted to RMB1,000 million and the par interest rate per annum was based on the sum of a benchmark rate plus a basic spread. The benchmark rate was the one-year time deposit rate published by the PBOC and the initial basic spread was 2%. If the Company does not exercise the early redemption option, an extra premium of 100BP will apply to the basic spread on a year-on-year basis from the 11th interest payment year. As of 28 December 2006, the proceeds from the RMB4,300 million hybrid capital bonds, net of expenses of issue, were fully credited to the account of the Company and this issue of bonds was thus completed. According to applicable rules, these proceeds of RMB4,300 million were fully accounted as supplementary capital.

## Changes in Share Capital and Information on Shareholders

Pursuant to the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2009] No.8) and the approval by the CBRC (Yin Jian Fu [2009] No.16), the Company issued a total of RMB5,000 million hybrid capital bonds for a term of 15 years through a public offering in the interbank bond market. Subject to the approval by the CBRC, the Company might exercise a one-off redemption of all or part of the bonds at par value after the expiry of the 10th year but before the maturity of the bonds. The bonds comprised fixed rate bonds and floating rate bonds. The fixed rate bonds, amounting to RMB3,325 million, were issued at an initial interest rate of 5.70% and the interest rate for the remaining five years will increase by 300BP on top of the initial interest rate applicable to the first ten years if the Company does not exercise any redemption option. The floating rate bonds amounted to RMB1,675 million and the par interest rate per annum was based on the sum of a benchmark rate plus a basic spread. The benchmark rate was the one-year time deposit rate published by the PBOC and the initial basic spread was 3%. If the Company does not exercise the early redemption option, an extra premium of 200BP will apply to the basic spread on a year-on-year basis from the 11th interest payment year. As of 26 March 2009, proceeds from the RMB5,000 million hybrid capital bonds, net of expenses of issue, were fully credited to the account of the Company and this issue of bonds was thus completed. According to applicable rules, these proceeds of RMB5,000 million were fully accounted as supplementary capital.

Pursuant to the approval by the CBRC (Yin Jian Fu [2004] No.159) and the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2010] No.31), the Company issued another batch of revolving subordinated bonds at fixed interest rates totaling RMB5,800 million through a public offering in the interbank bond market. These subordinated bonds were issued for a term of ten years and the interests were paid on an annual basis. Subject to the approval by the CBRC, the Company might exercise a one-off redemption of all or part of the bonds at par value after the expiry of the fifth year but before the maturity date of the bonds. The initial interest rate was 4.29% and the interest was paid on an annual basis. The proceeds from the RMB5,800 million subordinated bonds, net of expenses of issue, were fully credited to the account of the Company and thus this issue of bonds was completed on 17 June 2010. According to applicable rules, the proceeds from RMB5,800 million were fully accounted as supplementary capital.

Pursuant to the approval by the CBRC (Yin Jian Fu [2010] No.625) and the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2011] No.64), the Company issued a total of RMB10,000 million subordinated bonds at fixed interest rates through a public offering in the interbank bond market. The interests were paid on an annual basis. The subordinated bonds were issued for a term of 10 years and 15 years respectively. The 10-year bonds, amounting to RMB6,000 million, were issued at the nominal interest rate of 5.50% while the 15-year bonds, amounting to RMB4,000 million, were issued at the nominal interest rate of 5.70%. These subordinated bonds granted the issuer a one-off early redemption option, that is, subject to the approval by the CBRC, the Company might exercise a one-off redemption of all or part of the bonds at par value after the expiry of the fifth year but before the maturity date of the 10-year bonds or after the expiry of the tenth year but before the maturity date of the 15-year bonds. The exercise of the early redemption option by the issuer is not subject to the consent of bond holders. As of 28 March 2011, the proceeds from the RMB10,000 million subordinated bonds, net of expenses of issue, were fully credited to the account of the Company and this issue of bonds was thus completed. According to applicable rules, these proceeds of RMB10,000 million were fully accounted as supplementary capital.



# Changes in Share Capital and Information on Shareholders

## V. Shareholders

(I) The table below sets out the top ten shareholders of the Company and their shareholdings as at 31 December 2011:

(Unit: shares)

| Total number of shareholders  |                       |               |               |  | 836,369 |
|---|-----------------------|---------------|---------------|--|---------|
| Particulars of shareholdings of the top ten shareholders                                      |                       |               |               |  |         |
| Name of shareholders  | Type of shareholder   | Shareholdings | Shares        | Shares subject to restriction on sales |         |
| HKSCC Nominees Limited  | /                     | 15.27%        | 4,078,975,347 | —                                      |         |
| New Hope Investment Co., Ltd.   | Domestic legal person | 4.99%         | 1,333,586,825 | —                                      |         |
| China Life Insurance Co., Ltd — Traditional<br>— Common Insurance Products — 005L — CT001, SH | Domestic legal person | 4.31%         | 1,151,307,314 | —                                      |         |
| China Shipowners Mutual Assurance Association   | Domestic legal person | 3.39%         | 905,764,505   | —                                      |         |
| Oriental Group Incorporation  | Domestic legal person | 3.33%         | 888,970,224   | —                                      |         |
| Shanghai Giant Lifetech Co., Ltd.   | Domestic legal person | 3.02%         | 805,600,038   | —                                      |         |
| China SME Investment Co., Ltd.  | Domestic legal person | 2.76%         | 737,955,031   | —                                      |         |
| China Oceanwide Holdings Group Co., Ltd.  | Domestic legal person | 2.62%         | 698,939,116   | —                                      |         |
| Fuxin Group Co., Ltd.   | Domestic legal person | 2.12%         | 566,151,500   | —                                      |         |
| Sichuan South Hope Industrial Co., Ltd.   | Domestic legal person | 2.09%         | 558,306,938   | —                                      |         |

| Shareholdings of top ten holders of shares not subject to restriction on sales                |   |  |
|---|---|--|
| Name of shareholders  | Shares not subject to restriction on sales  | Classes of shares                                  |
| HKSCC Nominees Limited  | 4,078,975,347   | Overseas listed foreign invested shares (H shares) |
| New Hope Investment Co., Ltd.   | 1,333,586,825   | Ordinary shares dominated in RMB                   |
| China Life Insurance Co., Ltd — Traditional<br>— Common Insurance Products — 005L — CT001, SH | 1,151,307,314   | Ordinary shares dominated in RMB                   |
| China Shipowners Mutual Assurance Association   | 905,764,505   | Ordinary shares dominated in RMB                   |
| Oriental Group Incorporation  | 888,970,224   | Ordinary shares dominated in RMB                   |
| Shanghai Giant Lifetech Co., Ltd.   | 805,600,038   | Ordinary shares dominated in RMB                   |
| China SME Investment Co., Ltd.  | 737,955,031   | Ordinary shares dominated in RMB                   |
| China Oceanwide Holdings Group Co., Ltd.  | 698,939,116   | Ordinary shares dominated in RMB                   |
| Fuxin Group Co., Ltd.   | 566,151,500   | Ordinary shares dominated in RMB                   |
| Sichuan South Hope Industrial Co., Ltd.   | 558,306,938   | Ordinary shares dominated in RMB                   |
| Statement on the related relationship or concert actions among the aforesaid shareholders     | Both of New Hope Investment Co., Ltd and Sichuan South Hope Industrial Co., Ltd are controlled by New Hope Group Co., Ltd. The Company is not aware of any other related relationship among the shareholders. |  |

Note: The number of shares held by H-share holders was recorded in the Register of Members as kept by the H Share Registrar of the Bank.

# Changes in Share Capital and Information on Shareholders

## (II) Substantial shareholders' and other persons' interests or short positions in the shares and underlying shares of the Company under Hong Kong laws and regulations

As at 31 December 2011, the following persons (other than the Directors, Supervisors and chief executives of the Company) had the following interests in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Hong Kong Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") or as the Company is aware:

| Name of Substantial Shareholder  | Class of shares | Long/short position | Capacity  | No. of shares  | Notes | Percentage of the relevant shares in issue (%) | Percentage of all the issued shares (%) |
|--|-----------------|---------------------|---|----------------|-------|--|---|
| New Hope Group Co., Ltd.   | A               | Long                | Interest held by the corporation controlled by this substantial shareholder               | 1,891,893,763  | 1 & 4 | 8.38   | 7.08                                    |
| New Hope Liuhe Co., Ltd. (formerly known as: Sichuan New Hope Agri-Business Co., Ltd.) | A               | Long                | Interest held by the corporation controlled by this substantial shareholder               | 1,333,586,825* | 1     | 5.90   | 4.99                                    |
| New Hope Investment Co., Ltd.  | A               | Long                | Beneficial Owner  | 1,333,586,825* | 1     | 5.90   | 4.99                                    |
| Li Wei   | A               | Long                | Interest held by the corporation controlled by the spouse of this substantial shareholder | 1,891,893,763  | 2 & 4 | 8.38   | 7.08                                    |
| Liu Chang  | A               | Long                | Interest held by the corporation controlled by this substantial shareholder               | 1,891,893,763  | 3 & 4 | 8.38   | 7.08                                    |
| Morgan Stanley   | H               | Long                | Interest held by the corporation controlled by this substantial shareholder               | 353,503,858    | 5     | 8.57   | 1.32                                    |
|  |                 | Short               | Held by the corporation controlled by this substantial shareholder                        | 250,561,369    | 5     | 6.07   | 0.94                                    |

# Changes in Share Capital and Information on Shareholders

| Name of Substantial Shareholder  | Class of shares | Long/short position | Capacity  | No. of shares | Notes       | Percentage of the relevant shares in issue (%) | Percentage of all the issued shares (%) |      |
|----------------------------------|-----------------|---------------------|---|---------------|-------------|--|---|------|
| BlackRock, Inc.                  | H               | Long                | Interest held by the corporation controlled by this substantial shareholder | 303,766,370   | 6           | 7.36   | 1.14                                    |      |
|                                  |                 | Short               | Held by the corporation controlled by this substantial shareholder          | 41,631,867    | 6           | 1.01   | 0.16                                    |      |
| UBS AG                           | H               | Long                | Beneficial Owner  | 265,796,141   |             |  |   |      |
|                                  |                 | Long                | Person having a security interest   | 22,438,700    |             |  |   |      |
|                                  |                 | Long                | Interest held by the corporation controlled by this substantial shareholder | 762,810       |             |  |   |      |
|                                  |                 |                     |   |               | 288,997,651 | 7  | 7.00                                    | 1.08 |
|                                  |                 | Short               | Beneficial Owner  | 513,673,052   |             |  |   |      |
|                                  |                 | Short               | Held by the corporation controlled by this substantial shareholder          | 312,500       |             |  |   |      |
|                                  |                 |                     | 513,985,552   | 7             | 12.45       | 1.92   |   |      |
| Deutsche Bank Aktiengesellschaft | H               | Long                | Beneficial Owner  | 66,621,824    |             |  |   |      |
|                                  |                 | Long                | Person having a security interest   | 177,460,516   |             |  |   |      |
|                                  |                 |                     |   |               | 244,082,340 | 8  | 5.91                                    | 0.91 |
|                                  |                 | Short               | Beneficial Owner  | 57,746,097    |             |  |   |      |
|                                  |                 | Short               | Person having a security interest   | 92,454,716    |             |  |   |      |
|                                  |                 |                     | 150,200,813   | 8             | 3.64        | 0.56   |   |      |

# Changes in Share Capital and Information on Shareholders

| Name of Substantial Shareholder   | Class of shares | Long/ short position | Capacity  | No. of shares | Notes       | Percentage of the relevant shares in issue (%) | Percentage of all the issued shares (%) |      |
|-----------------------------------|-----------------|----------------------|---|---------------|-------------|--|---|------|
| Citigroup Inc.                    | H               | Long                 | Interest held by the corporation controlled by this substantial shareholder | 77,730,902    |             |  |   |      |
|                                   |                 | Long                 | Custodian   | 122,664,213   |             |  |   |      |
|                                   |                 | Long                 | Person having a security interest   | 23,898,018    |             |  |   |      |
|                                   |                 |                      |   |               | 224,293,133 | 9  | 5.43                                    | 0.84 |
|                                   |                 | Short                | Held by the corporation controlled by this substantial shareholder          | 85,904,798    | 9           | 2.08   | 0.32                                    |      |
| Vogel Holding Group Limited       | H               | Long                 | Beneficial Owner  | 306,879,500   | 10 & 11     | 7.43   | 1.15                                    |      |
| Shi Jing                          | H               | Long                 | Interest held by the corporation controlled by this substantial shareholder | 306,879,500   | 10 & 11     | 7.43   | 1.15                                    |      |
| Fosun International Limited       | H               | Long                 | Beneficial Owner  | 185,197,000   |             |  |   |      |
|                                   |                 | Long                 | Interest held by the corporation controlled by this substantial shareholder | 104,015,500   |             |  |   |      |
|                                   |                 |                      |   | 289,212,500   | 12 & 13     | 7.01   | 1.08                                    |      |
| Fosun International Holdings Ltd. | H               | Long                 | Interest held by the corporation controlled by this substantial shareholder | 289,212,500   | 12 & 13     | 7.01   | 1.08                                    |      |
| Guo Guangchang                    | H               | Long                 | Interest held by the corporation controlled by this substantial shareholder | 289,212,500   | 12 & 13     | 7.01   | 1.08                                    |      |

\* As far as the Company is aware, the above numbers of shares reflected the interests of the relevant substantial shareholders as at 31 December 2011. However, these numbers of shares were not reported in the disclosure forms completed by these substantial shareholders because the changes in their interests did not result in a disclosure obligation in accordance with SFO.

# Changes in Share Capital and Information on Shareholders

## Notes:

1. The 1,891,893,763 A shares comprised 558,306,938 A shares directly held by Sichuan South Hope Industrial Co., Ltd. and 1,333,586,825 A shares directly held by New Hope Investment Co., Ltd. Sichuan South Hope Industrial Co., Ltd. was wholly-owned by New Hope Group Co., Ltd., while New Hope Investment Co., Ltd. was held as to 25% and 75% of its issued share capital by New Hope Group Co., Ltd. and New Hope Liuhe Co., Ltd. respectively. New Hope Group Co., Ltd. held 45.7% of the issued share capital of New Hope Liuhe Co., Ltd.

According to the SFO, New Hope Group Co., Ltd. was deemed to have interests in the 558,306,938 A shares held by Sichuan South Hope Industrial Co., Ltd. and in the 1,333,586,825 A shares held by New Hope Investment Co., Ltd. Meanwhile, New Hope Liuhe Co., Ltd. was also deemed to have interests in the 1,333,586,825 A shares held by New Hope Investment Co., Ltd.

2. Ms. Li Wei is the spouse of Mr. Liu Yonghao (a Non-executive Director of the Company). According to the SFO, Ms. Li was deemed to have interests in the 1,891,893,763 A shares of the Company in which Mr. Liu Yonghao had interests (Mr. Liu Yonghao's interests in shares are disclosed in this annual report in the section headed "Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Securities of the Company or its Associated Corporations under Hong Kong Laws and Regulations").
3. Ms. Liu Chang held 36.35% of the issued share capital of New Hope Group Co., Ltd. (see note (1) above). According to the SFO, Ms. Liu was deemed to have interests in the 1,891,893,763 A shares of the Company in which New Hope Group Co., Ltd. had interests. Ms. Liu Chang is the daughter of Mr. Liu Yonghao (a Non-executive Director of the Company).
4. The interests that New Hope Group Co., Ltd., Ms. Li Wei and Ms. Liu Chang had in the 1,891,893,763 A shares, as set out in the above table, were from the same block of shares.
5. Morgan Stanley had a long position in 353,503,858 H shares and a short position in 250,561,369 H shares of the Company by virtue of its control over the following corporations:
  - 5.1 Morgan Stanley & Co. International plc., an indirect wholly-owned subsidiary of Morgan Stanley, had a long position in 146,585,186 H shares and a short position in 113,457,797 H shares of the Company.
  - 5.2 Morgan Stanley & Co. LLC, an indirect wholly-owned subsidiary of Morgan Stanley, had a long position in 107,954,972 H shares and a short position in 108,135,972 H shares of the Company.
  - 5.3 Morgan Stanley Investment Management Company, an indirect wholly-owned subsidiary of Morgan Stanley, had a long position in 81,735,500 H shares of the Company.
  - 5.4 MSDW Equity Financing Services (Luxembourg) S.a.r.l., an indirect wholly-owned subsidiary of Morgan Stanley, had a long position in 14,077,200 H shares and a short position in 14,077,200 H shares of the Company.
  - 5.5 MSDW Equity Finance Services I (Cayman) Limited, an indirect wholly-owned subsidiary of Morgan Stanley, had a long position in 2,400,000 H shares and a short position in 2,400,000 H shares of the Company.
  - 5.6 Mitsubishi UFJ Morgan Stanley Securities had a long position in 419,500 H shares and a short position in 403,500 H shares of the Company. Mitsubishi UFJ Morgan Stanley Securities was owned as to 40% by Morgan Stanley Japan Holdings Co., Ltd., which was an indirect wholly-owned subsidiary of Morgan Stanley.
  - 5.7 Morgan Stanley Capital (Luxembourg) S.A. had a long position in 331,500 H shares of the Company. Morgan Stanley Capital (Luxembourg) S.A. was owned as to 93.75% by Morgan Stanley International Incorporated, which was an indirect wholly-owned subsidiary of Morgan Stanley.
  - 5.8 Morgan Stanley Capital (Cayman Islands) Limited, a wholly-owned subsidiary of Morgan Stanley, had a short position in 331,500 H shares of the Company.
  - 5.9 Morgan Stanley Capital Services Inc., an indirect wholly-owned subsidiary of Morgan Stanley, had a short position in 216,000 H shares of the Company.
  - 5.10 Morgan Stanley Asia Securities Products LLC, an indirect wholly-owned subsidiary of Morgan Stanley, had a short position of 11,755,400 H shares of the Company.

Besides, 79,405,500 H shares (Long position) and 563,000 H shares (Short position) were held through derivatives as follows:

|   |   |
|---|---|
| 331,500 H shares (Short position)   | — through physically settled derivatives (off exchange) |
| 79,405,500 H shares (Long position) and 231,500 H shares (Short position) | — through cash settled derivatives (off exchange)       |
6. BlackRock, Inc. had a long position in 303,766,370 H shares (in which 670,500 H shares were held through physically settled derivatives (on exchange)) and a short position in 41,631,867 H shares (in which 400 H shares were held through physically settled derivatives (on exchange)) of the Company by virtue of its control over a number of corporations.

# Changes in Share Capital and Information on Shareholders

7. UBS AG had a long position in 762,810 H shares and a short position in 312,500 H shares of the Company by virtue of its control over a number of corporations. Besides, 47,243,164 H shares (Long position) and 510,809,552 H shares (Short position) were held through derivatives as follows:

|   |   |
|---|---|
| 60 H shares (Long position)   | — through physically settled derivatives (on exchange)  |
| 18,673,604 H shares (Long position) and 2,509,552 H shares (Short position)   | — through physically settled derivatives (off exchange) |
| 28,569,500 H shares (Long position) and 508,300,000 H shares (Short position) | — through cash settled derivatives (off exchange)       |

8. In the entire interest and short position of Deutsche Bank Aktiengesellschaft in the Company, 8,751,900 H shares (Long position) and 7,755,890 H shares (Short position) were held through cash settled derivatives (off exchange). Besides, 1,525,500 H shares (Long position) were held by its indirect wholly-owned subsidiary, Abbey Life Assurance Company Limited.

9. Citigroup Inc. had a long position in 224,293,133 H shares and a short position in 85,904,798 H shares of the Company by virtue of its control over a number of corporations.

The entire interest and short position of Citigroup Inc. in the Company included a lending pool of 122,664,213 H shares. Besides, 1,066,510 H shares (Long position) and 14,508,480 H shares (Short position) were held through physically settled derivatives (off exchange).

10. Vogel Holding Group Limited, wholly-owned by Ms. Shi Jing, had a long position in 306,879,500 H shares (in which all H shares were held through cash settled derivatives (off exchange)) of the Company. According to the SFO, Ms. Shi Jing was deemed to have interests in the 306,879,500 H shares of the Company in which Vogel Holding Group Limited had interests. Ms. Shi Jing is the daughter of Mr. Shi Yuzhu (a Non-executive Director of the Company). Mr. Shi Yuzhu's interests in shares are disclosed in this annual report in the section headed "Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Securities of the Company or its Associated Corporations under Hong Kong Laws and Regulations".

11. The interests that Vogel Holding Group Limited and Ms. Shi Jing had in the 306,879,500 H shares, as set out in the above table, were from the same block of shares.

12. The 289,212,500 H shares (Long position) held by Fosun International Limited comprised 185,197,000 H shares directly held by itself, 29,660,500 H shares directly held by Pramerica-Fosun China Opportunity Fund, L.P. and 74,355,000 H shares directly held by Topper Link Limited. Pramerica-Fosun China Opportunity Fund, L.P. and Topper Link Limited were both indirect wholly-owned subsidiaries of Fosun International Limited. Fosun International Limited was owned as to 79.08% by Fosun Holdings Limited, which in turn was a wholly-owned subsidiary of Fosun International Holdings Ltd. Mr. Guo Guangchang held 58% of the issued share capital of Fosun International Holdings Ltd.

According to the SFO, Fosun International Limited was deemed to have interests in the 29,660,500 H shares held by Pramerica-Fosun China Opportunity Fund, L.P. and in the 74,355,000 H shares held by Topper Link Limited. Meanwhile, Fosun International Holdings Ltd. and Mr. Guo Guangchang were also deemed to have interests in the 289,212,500 H shares held by Fosun International Limited.

13. The interests that Fosun International Limited, Fosun International Holdings Ltd. and Mr. Guo Guangchang had in the 289,212,500 H shares, as set out in the above table, were from the same block of shares.

Save as disclosed above and the section headed "Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Securities of the Company or its Associated Corporations under Hong Kong Laws and Regulations", the Company is not aware of any other person having any interests or short positions in the shares and underlying shares of the Company as at 31 December 2011 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### **(III) Share pledge and lock-up in respect of shares held by shareholders with 5% or more equity in the Company**

As at 31 December 2011, no shareholder holds 5% or more equity in the Company of (other than HKSCC Nominees Limited).

### **(IV) Controlling shareholder/ultimate controller**

The Company does not have any controlling shareholder or ultimate controller.

### **(V) Shareholders with 5% or more equity in the Company**

As at 31 December 2011, no shareholder holds 5% or more equity in the Company of (other than HKSCC Nominees Limited).

# Directors, Supervisors, Senior Management and Employees

## I. Directors, Supervisors and Senior Management

### (I). Basic information

| Name          | Gender | Year of Birth | Position  | Term of office      | Shares held at beginning of the period (share) | Share held at end of the period (share) | Aggregate remuneration before tax received during the reporting period (RMB ten thousand) | Remuneration received from shareholders or other related parties |
|---------------|--------|---------------|---|---------------------|--|---|---|--|
| DONG Wenbiao  | M      | 1957          | Chairman & Executive Director                             | 2009.3.23-2012.3.23 | —  | —                                       | 516.25  | No   |
| ZHANG Hongwei | M      | 1954          | Vice Chairman & Non-executive Director                    | 2009.3.23-2012.3.23 | —  | —                                       | 89.50   | Yes  |
| LU Zhiqiang   | M      | 1951          | Vice Chairman & Non-executive Director                    | 2009.3.23-2012.3.23 | —  | —                                       | 87.50   | Yes  |
| LIU Yonghao   | M      | 1951          | Vice Chairman & Non-executive Director                    | 2009.3.23-2012.3.23 | —  | —                                       | 84.50   | Yes  |
| WANG Yugui    | M      | 1951          | Non-executive Director                                    | 2009.3.23-2012.3.23 | —  | —                                       | 84.50   | Yes  |
| CHEN Jian     | M      | 1958          | Non-executive Director                                    | 2009.3.23-2012.3.23 | —  | —                                       | 71.00   | Yes  |
| WONG Hei      | F      | 1962          | Non-executive Director                                    | 2009.3.23-2012.3.23 | —  | —                                       | 82.00   | Yes  |
| SHI Yuzhu     | M      | 1962          | Non-executive Director                                    | 2009.3.23-2012.3.23 | —  | —                                       | 80.00   | No   |
| WANG Hang     | M      | 1971          | Non-executive Director                                    | 2009.3.23-2012.3.23 | —  | —                                       | 90.00   | No   |
| WANG Junhui   | M      | 1971          | Non-executive Director                                    | 2009.3.23-2012.3.23 | —  | —                                       | 79.00   | Yes  |
| LIANG Jinquan | M      | 1940          | Independent Non-executive Director                        | 2009.3.23-2012.3.23 | —  | —                                       | —   | No   |
| WANG Songqi   | M      | 1952          | Independent Non-executive Director                        | 2009.3.23-2012.3.23 | —  | —                                       | 101.50  | No   |
| Andrew WONG   | M      | 1957          | Independent Non-executive Director                        | 2009.3.23-2012.3.23 | —  | —                                       | 126.50  | No   |
| QIN Rongsheng | M      | 1962          | Independent Non-executive Director                        | 2009.9.9-2012.3.23  | —  | —                                       | —   | No   |
| WANG Lihua    | M      | 1963          | Independent Non-executive Director                        | 2009.9.9-2012.3.23  | —  | —                                       | 86.00   | No   |
| HAN Jianmin   | M      | 1969          | Independent Non-executive Director                        | 2009.9.9-2012.3.23  | —  | —                                       | 93.00   | No   |
| HONG Qi       | M      | 1957          | Executive Director, President of the Bank                 | 2009.3.23-2012.3.23 | —  | —                                       | 511.46  | No   |
| LIANG Yutang  | M      | 1958          | Executive Director, Vice President of the Bank            | 2009.3.23-2012.3.23 | —  | —                                       | 428.70  | No   |
| QIAO Zhimin   | M      | 1952          | Chairman of the Supervisory Board,<br>Employee Supervisor | 2009.3.23-2012.3.23 | —  | —                                       | 472.67  | No   |
| XING Jijun    | M      | 1964          | Vice Chairman of the Supervisory Board                    | 2009.3.23-2012.3.23 | —  | —                                       | 79.60   | No   |
| LU Zhongnan   | M      | 1955          | Supervisor  | 2009.3.23-2012.3.23 | —  | —                                       | 66.50   | No   |
| ZHANG Disheng | M      | 1955          | Supervisor  | 2009.3.23-2012.3.23 | —  | —                                       | 60.50   | No   |
| XU Rui        | F      | 1945          | External Supervisor                                       | 2009.3.23-2012.3.23 | —  | —                                       | 70.00   | No   |
| WANG Liang    | M      | 1942          | External Supervisor                                       | 2009.3.23-2012.3.23 | —  | —                                       | 71.00   | No   |
| CHEN Jinzhong | M      | 1960          | Employee Supervisor                                       | 2009.3.23-2012.3.23 | —  | —                                       | 407.89  | No   |
| WANG Lei      | F      | 1961          | Employee Supervisor                                       | 2009.3.23-2012.3.23 | —  | —                                       | 397.47  | No   |
| XING Benxiu   | M      | 1963          | Vice President of the Bank                                | 2010.8.10-2012.3.23 | —  | —                                       | 328.31  | No   |
| SHAO Ping     | M      | 1957          | Vice President of the Bank                                | 2009.3.23-2012.3.23 | —  | —                                       | 337.20  | No   |
| ZHAO Pinzhang | M      | 1956          | Vice President of the Bank                                | 2009.3.23-2012.3.23 | —  | —                                       | 337.20  | No   |
| MAO Xiaofeng  | M      | 1972          | Vice President of the Bank, Board Secretary               | 2009.3.23-2012.3.23 | —  | —                                       | 337.20  | No   |
| DUAN Qingshan | M      | 1957          | Chief Financial Officer                                   | 2010.4.19-2012.3.23 | —  | —                                       | 337.20  | No   |

Notes: 1. Mr. Liang Jinquan and Mr. Qin Rongsheng, the independent non-executive directors of the Company, are government officials under direct management of central government (中管幹部). In accordance with the 2008 No.22 Circular issued by Central Commission for Discipline Inspection of the Communist Party of China (中紀委) and based on their personal requests, Mr. Liang and Mr. Qin have waived their directors' remuneration for 2011;

2. As at the end of the reporting period, the Company had not implemented any incentive share option scheme;

3. The total pre-tax remuneration for full time executive directors, Chairman of the Supervisory Board, and senior management members is still in confirmation process and further disclosure regarding such unconfirmed part will be made by the Company;

4. The above table is based on the information of the Directors, Supervisors and senior management of the Company in the reporting period.

# Directors, Supervisors, Senior Management and Employees

## (II) Current positions held by the Directors and Supervisors in the companies that are shareholders of the Company

| Name          | Name of the Company's shareholder company  | Position                    | Term of Office            |
|---------------|--|-----------------------------|---------------------------|
| Zhang Hongwei | Orient Group Incorporation   | Chairman                    | 1993 – Present            |
| Lu Zhiqiang   | China Oceanwide Holdings Group Co., Ltd.   | Chairman                    | May 1999 – Present        |
| Liu Yonghao   | New Hope Investment Co., Ltd.  | Chairman                    | 2002 – Present            |
| Wang Yugui    | China Shipowners Mutual Assurance Association  | General Manager             | 1993 – Present            |
| Chen Jian     | China SME Investment Co., Ltd.   | Vice Chairman               | 1992 – Present            |
| Wong Hei      | Fuxin Group Co., Ltd.  | Chairman                    | September 2001 – Present  |
| Shi Yuzhu     | Shanghai Giant Lifetech Co., Ltd.  | Ultimate Controller         | April 2001 – Present      |
| Wang Hang     | New Hope Group Co., Ltd. (the controlling shareholder of the controlling shareholders of New Hope Investment Co., Ltd.(one of the shareholders of the Company), and the controlling shareholder of Sichuan South Hope Industrial Co., Ltd. (one of the shareholders of the Company)) | Director and Vice President | September 2010 – Present  |
| Wang Junhui   | China Life Asset Management Company Limited  | Vice President              | 2007 – Present            |
| Xing Jijun    | Orient Group Incorporation   | President                   | February 2010 – June 2011 |

## (III) Major working experience of Directors, Supervisors and Senior Manager

### Directors

#### Executive Directors

**Mr. Dong Wenbiao**, has been an Executive Director since 30 April 2000. He is also the Chairman of the Board and the chairman of Strategic Development and Investment Management Committee under the Board. Mr. Dong is also a member of the Tenth and Eleventh Chinese People's Political Consultative Conference ("CPPCC"). Since 2007, Mr. Dong has been a vice chairman of the Committee for Economic Affairs of the CPPCC, a member of the All-China Federation of Industry and Commerce ("ACFIC") and the vice chairman of the All-China General Chamber of Industry and Commerce. Mr. Dong joined the Company as a vice president at the establishment of the Company and has been an Executive Director since April 2000. Mr. Dong was the President of the Company from April 2000 to July 2006, and became the Chairman in July 2006. Prior to joining the Company, Mr. Dong was the chairman and president of Haitong Securities Co., Ltd. from 1993 to 1995, a director of the Bank of Communications from 1992 to 1995, the general manager and secretary of the party committee of the Zhengzhou branch of the Bank of Communications from 1991 to 1994 and a deputy director of Henan Finance and Management College from 1988 to 1991. Mr. Dong has over 30 years of experience in banking management and the financial and securities industries. Mr. Dong obtained a master's degree in economics from Xiamen University in 1993 and is a senior economist.



# Directors, Supervisors, Senior Management and Employees

**Mr. Hong Qi**, has been an Executive Director since 8 January 2004. He is also the President and a member of Strategic Development and Investment Management Committee and Nomination Committee under the Board. Mr. Hong is the vice president of China Chamber of International Commerce, a council member of Financial Planning Standard Council of China, a committee member of China Society for Finance and Banking and an executive committee member of China Society for International Finance and Banking. Mr. Hong was a Vice President of the Company from 2000 to March 2009 and became the President in March 2009. He was a director of the Business Department, Head Office of the Company from January 1996 to September 1996. Mr. Hong acted as the vice general manager of our Beijing Administrative Department from September 1996 to April 1998 and promoted to the general manager from 1998 to 2000. Prior to joining the Company, Mr. Hong was the managing director and secretary of the party committee of the Beihai branch of the Bank of Communications from 1994 to 1995, a deputy director of the securities research institute of the Renmin University of China from 1993 to 1994, and a section chief at the headquarters of the PBOC from 1985 to 1991. Mr. Hong has over 26 years of experience in banking management and finance. Mr. Hong obtained his doctorate in economics from Renmin University of China in 1996.

**Mr. Liang Yutang**, has been an Executive Director since 23 March 2009. He is also the Vice President of the Company and a member of Related Party Transactions Supervision Committee, Compensation and Remuneration Committee and Risk Management Committee under the Board. Mr. Liang joined the Company as a deputy general manager of the funds planning department at the establishment of the Company and was the general manager of the funds planning department and the general manager of the financial institutions department of the Company from 1996 to 2002. Mr. Liang was an assistant to the President of the Company from 2003 to 2005, the general manager of the Beijing Administrative Department of the Company from 2002 to 2007 and became the Vice President of the Company in February 2005. Before joining the Company, Mr. Liang was the manager of the integrated planning department of the Bank of Communications from 1994 to 1995, and the general manager of Yutong Real Estate Development and Investment Company of the Bank of Communications, Zhengzhou branch from 1992 to 1994. Mr. Liang was the deputy head of the academic secretariat of Henan Finance and Management College from 1991 to 1992, and the deputy director, director of the management teaching and researching department of Henan Finance and Management College from 1985 to 1991. Mr. Liang has over 30 years of experience in finance. Mr. Liang obtained a master's degree in banking and finance from Xiamen University in 1993 and is a senior economist.

## ***Non-executive Directors***

**Mr. Zhang Hongwei**, has been a Vice Chairman of the Board of the Company since 30 April 2000. Mr. Zhang is a Non-executive Director and also a member of Strategic Development and Investment Management Committee and Nomination Committee under the Board. Mr. Zhang is the chairman of the board of Orient Group Industrial Co., Ltd., Orient Group Incorporation (listed on the Shanghai Stock Exchange (SSE: 600811)), Jinzhou Port Co., Ltd. (listed on the Shanghai Stock Exchange (SSE: 600190/900952)) and United Energy Group Limited (listed on The Stock Exchange of Hong Kong Limited (stock code: 0467)), the chairman of the board of Orient Group Investment Holding Co., Ltd. and a director of China Minzu Securities Co., Ltd. Mr. Zhang is also a member of the CPPCC, and the vice chairman of the All-China General Chamber of Industry and Commerce. Mr. Zhang was the vice chairman of the ACFIC from 1997 to 2007. Mr. Zhang was previously a member of the Standing Committee of the 10th CPPCC. Mr. Zhang obtained a master's degree in economics from Harbin Institute of Technology in 1997 and is a senior economist.

# Directors, Supervisors, Senior Management and Employees

**Mr. Lu Zhiqiang**, has been a Vice Chairman of the Board of the Company since 16 July 2006. Mr. Lu is a Non-executive Director and also a member of Strategic Development and Investment Management Committee and Compensation and Remuneration Committee under the Board. Mr. Lu had been a Director since the establishment of the Company until June 2003 and was re-elected as a Director in 2006. Mr. Lu is the chairman of the board and president of Oceanwide Group Co. Ltd. and China Oceanwide Holdings Group Co., Ltd., and the chairman of Oceanwide Real Estate Group Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE: 000046)). Mr. Lu is also a member of the Standing Committee of the CPPCC and a vice chairman of the ACFIC. Mr. Lu was the Chief Supervisor of the Company from June 2003 to December 2004 and a deputy Chief Supervisor of the Company from December 2004 to June 2006. He was also a director of Haitong Securities Co., Ltd. (listed on the Shanghai Stock Exchange (SSE: 600837)). Mr. Lu obtained a master's degree in economics from Fudan University in 1995 and is a research fellow.

**Mr. Liu Yonghao**, has been a Vice Chairman of the Board of the Company since 23 March 2009. Mr. Liu is a Non-executive Director, a member of Strategic Development and Investment Management Committee under the Board and was previously our Vice Chairman of the Board since the establishment of the Company until 2006. Mr. Liu is currently the chairman of the board of New Hope Group Co., Ltd., New Hope Liuhe Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE: 000876) and formerly known as Sichuan New Hope Agri-Business Co., Ltd and was renamed on 27 December 2011), New Hope Investment Co., Ltd. and Shandong Liuhe Group Co., Ltd. Mr. Liu has been a member of the CPPCC since 1993 and a vice chairman of Committee for Economic Affairs of the CPPCC since 2003. Mr. Liu was previously the vice president of the China Society for Promotion of the Guangcai Program and vice chairman of the ACFIC.

**Mr. Wang Yugui**, was appointed on 3 December 1995 and has been a Non-executive Director since the establishment of the Company. Mr. Wang is also a member of Risk Management Committee and Nomination Committee under the Board. He is the managing director of China Shipowners Mutual Assurance Association, an executive member of China Maritime Law Association and the China Association of Trade in Services, a supervisor of Haitong Securities Co., Ltd. (listed on Shanghai Stock Exchange(stock code: 600837)) and an arbitrator of the maritime arbitration commission of the China Council for the Promotion of International Trade. Mr. Wang has previously served as a director and as a supervisor of China Everbright Bank, and a part-time lawyer of Beijing Jingwei Law Firm. Mr. Wang graduated from the English department of Beijing Second Foreign Language Institute in 1977 and is a senior economist.

**Mr. Chen Jian**, was appointed on 3 December 1995 and has been a Non-executive Director since the establishment of the Company. Mr. Chen is also a member of Compensation and Remuneration Committee under the Board. Mr. Chen is the vice chairman of the board of China SME Investment Co., Ltd. Mr. Chen was previously the chairman of Beijing Maoyuanyuan Real Estates Development Company Limited and Beijing Huamao Entertainment Co., Ltd., a director of Hunan Laodie Agricultural Technology Development Co., Ltd., an editor of the Institute of Agricultural Economics of Chinese Academy of Agricultural Sciences, a reporter of the agricultural department of the People's Daily, a deputy secretary-general of China Foundation for Poverty Alleviation, and a director of the State Council's research office. Mr. Chen obtained a master's degree in administration of agricultural economics from the graduate school of Chinese Academy of Agricultural Sciences in 1985.

# Directors, Supervisors, Senior Management and Employees

**Ms. Wong Hei**, has been a Non-executive Director of the Company since 16 June 2003. Ms. Wong is also a member of Audit Committee and Related Party Transactions Supervision Committee under the Board. Ms. Wong is the chairman of the board of Fuxin Group Co., Ltd. Ms. Wong was previously the financial controller of Xiamen Fuxin Property Co., Ltd. and Fuxin Group Co., Ltd. Ms. Wong graduated from the Jimei Teachers College in 1982.

**Mr. Shi Yuzhu**, has been a Non-executive Director of the Company since 16 July 2006. He is also a member of Audit Committee and Related Party Transactions Supervision Committee under the Board. Mr. Shi is the chairman of the board of Giant Investment Co., Ltd. and Shanghai Giant Network Science Technologies Co., Ltd., the chairman of the board and the chief executive officer of Giant Interactive Group Inc. (listed on New York Stock Exchange (NYSE: GA)), an independent director of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. (listed on the Shanghai Stock Exchange (SSE: 600895)), an executive director of Stone Group Holdings Limited, a director of Shanghai Zhengtu Information Technology Co., Ltd. and the ultimate controller of Shanghai Giant Lifetech Co., Ltd. Mr. Shi was previously the chief executive officer of Stone Group Holdings Limited from 2004 to 2007. Mr. Shi obtained his bachelor's degree in mathematics from Zhejiang University in 1984. He also graduated as a research student from Shenzhen University in software science in 1990.

**Mr. Wang Hang**, has been a Non-executive Director of the Company since 16 July 2006. He is also a member of Compensation and Remuneration Committee, Risk Management Committee and Nomination Committee under the Board. Mr. Wang is a director and vice president of New Hope Group Co., Ltd., the general manager of Beijing Shouwang Asset Management Co. Ltd. and the vice chairman of China Youth Entrepreneurs Association. Mr. Wang has been a non-executive director of Hebei Baoshuo Co., Ltd. (listed on the Shanghai Stock Exchange (SSE: 600155)) since 29 December, 2009. Mr. Wang was previously a civil servant at the general office of the PBOC, the chairman of the board of Kunming O-Park Co., Ltd., the consultant and chief operating officer of the corporate finance department of New Hope Group Co., Ltd., the vice chairman of the board of Union Trust & Investment Ltd and the chairman and president of Sichuan South Hope Industrial Co., Ltd. Mr. Wang has a master's degree in economics from Peking University.

**Mr. Wang Junhui**, has been a Non-executive Director of the Company since 23 March 2009. He is also a member of Strategic Development and Investment Management Committee and Related Party Transactions Supervision Committee under the Board. Mr. Wang has been the vice president of China Life Asset Management Company Limited since 2007. He has also been the Director of China Life Franklin Asset Management Company Limited since 2009 and the secretary of the party committee and president of China Life Investment Holding Company Limited since February 2011. Prior to this, Mr. Wang was the assistant to the president of China Life Asset Management Company Limited from 2004 to 2007, and an assistant to fund manager, a fund manager, director of investment department and assistant chief executive at Harvest Fund Management Co., Ltd. from 2000 to 2004. Mr. Wang was a committee member of the 10th and 11th sessions of All-China Youth Federation and the 9th and 10th sessions of Beijing Youth Federation. Mr. Wang obtained his doctorate in finance from Research Institute for Fiscal Science, Ministry of Finance in 2008.

# Directors, Supervisors, Senior Management and Employees

## ***Independent Non-executive Directors***

**Mr. Liang Jinqun**, has been an Independent Non-executive Director of the Company since 16 July 2006. He is also a member of Related Party Transactions Supervision Committee and Compensation and Remuneration Committee and the chairman of Nomination Committee under the Board. Mr. Liang is a member of the Standing Committee of the CPPCC, vice chairman of China Soong Ching Ling Foundation, and a consultant of China Council for the Promotion of Peaceful National Reunification. Mr. Liang previously worked at the Chinese Academy of Sciences, the Central Party School, the Organization Department of the Central Committee, the Publicity Department of the Central Committee, the Secretariat of the Central Committee, and the Communist Party of China (“CPC”) Central Committee General Office. Mr. Liang was also the deputy director of Organization Department of the Party Committee for Organs Directly under the CPC, the chairman of the research office of the Party Committee for Organs Directly under CPC, a member of the standing committee of Party Committee for Organs Directly under the CPC, a member of the standing committee, the head of the publicity department and the deputy secretary, of the Party Committee of Yunnan Province, the deputy secretary general and member of the party committee of the 8th and 9th CPPCC, the secretary of the party committee and the first deputy chairman of ACFIC, the deputy general director of the United Front Work Department of CPC Central Committee and the vice chairman of China Overseas Friendship Association and secretary-general of China Council for the Promotion of Peaceful National Reunification. Mr. Liang graduated from the leaders’ class of Party School of the Central Committee of CPC.

**Mr. Wang Songqi**, has been an Independent Non-executive Director of the Company since 16 July 2006. He is also a member of Strategic Development and Investment Management Committee and Audit Committee and the chairman of Risk Management Committee under the Board. Mr. Wang is a deputy director of the Finance Research Center of the Chinese Academy of Social Sciences, the chairman of Beijing Venture Capital Association, a member of the standing committee of China Society for Finance and Banking, an independent director of Dalian United Venture Guarantee Co., Ltd. and an independent director of Bank of Communication’s Schroder Fund Management Co., Ltd. Mr. Wang obtained his doctorate from Renmin University of China in 1989 and is currently a supervisor for doctorate candidates at the Chinese Academy of Social Science.

**Mr. Andrew Wong**, has been an Independent Non-executive Director of the Company since 16 July 2006. He is also a member of Audit Committee, Risk Management Committee and Nomination Committee and the Chairman of Compensation and Remuneration Committee under the Board. Mr. Wong is a director of Henderson China Properties Limited and the senior advisor to Mr. Lee Ka Kit who is the vice chairman of the board of Henderson Land Development Company Limited. Mr. Wong is also an external director of Shenzhen Yantian Port Group Co., Ltd., an independent non-executive director of ACE Life Insurance Company Ltd. and a director of China Overseas Friendship Association and China Tongxin Warm Project Foundation. Since 1 July, 2010, Mr. Wong has been appointed as a senior consultant of Keefe Bruyette & Woods Asia Limited. Mr. Wong held various senior positions at the Royal Bank of Canada, including the assistant representative for China operations, representative of southern China, the branch manager of the Shanghai branch. Mr. Wong also held various positions at the Union Bank of Switzerland, including head of China desk and an executive director of debt capital markets. Mr. Wong previously also served as a director of China of Citicorp International Limited, a merchant banking arm of Citibank. Further, Mr. Wong was the head of Greater China business of

# Directors, Supervisors, Senior Management and Employees

Hang Seng Bank Limited and the managing director of corporate and investment banking — Greater China of DBS Bank Limited, Hong Kong. Mr. Wong has been a member of the CPPCC Shenzhen Committee since 2002.

**Mr. Qin Rongsheng**, has been an Independent Non-executive Director of the Company since 9 September 2009. He is also a member of Compensation and Remuneration Committee and Nomination Committee and the chairman of Audit Committee and Related Party Transactions Supervision Committee under the Board. Mr. Qin is a professor of the Beijing National Accounting Institute, the vice president of the China Audit Society and the vice president of the China Association of Chief Financial Officers, as well as a member of the examination committee of Chartered Public Accountants of the Ministry of Finance and a member of the Auditing Standards Committee of China. He is also a part-time professor of Tsinghua University, Renmin University of China, Zhongnan University of Economics and Law, Jiangxi University of Finance and Economics.

**Mr. Wang Lihua**, has been an Independent Non-executive Director of the Company since 9 September 2009. He is also a member of Related Party Transactions Supervision Committee, Compensation and Remuneration Committee and Nomination Committee under the Board. Mr. Wang is currently the president of the 1st session of Lawyers Association of Xicheng District of Beijing (北京市西城區律師協會), the managing partner of Beijing Tian Yuan Law Firm and executive councilor of the All China Lawyers Association. He is also an adviser of the consultant group to the Beijing Municipal Government and an expert of the Affiliate of International Chamber of Commerce in China, a member of the 2nd and 3rd sessions of the examination committee for mergers, acquisitions and restructurings of listed companies under the CSRC, and an independent director of Shandong Xingmin Wheel Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE: 002355)). Mr. Wang was previously the director of the research office of the law school of Peking University, the vice president of the 7th session Beijing Lawyers Association, a member of the 7th and 8th sessions examination committee for security issuance under CSRC, a member of the 3rd and 4th sessions (the 1st session of the new series) examination committee for mergers, acquisitions and restructurings of listed companies under CSRC and an independent director of Xinjiang Chalkis Co., Ltd. (listed on the Shenzhen Stock Exchange (SHE: 000972)). Mr. Wang obtained a master's degree in economic law from Peking University in 1993.

**Mr. Han Jianmin**, has been an Independent Non-executive Director of the Company since 9 September 2009. He is also a member of Audit Committee, Related Party Transactions Supervision Committee, Compensation and Remuneration Committee and Nomination Committee under the Board. Mr. Han is currently a director and managing partner of Da Hua Certified Public Accountants (大華會計師事務所), member of the 1st, 2nd and 3rd sessions of examination committee for security issuance on the growth enterprise board under the CSRC, as well as an independent director of Tianjin Bohai Commodity Exchange Ltd and has served as an independent director of Dongxing Securities Co., Ltd. since December 2011. Mr. Han has previously served in the Mudanjiang branch of the Bank of China, and a director and deputy accountant in-chief of Beijing Zhongzhou Accounting Firm, a part-time supervisor of Industrial and Commercial Bank of China commissioned by Finance Commission of China, a director and partner of Beijing Zhongzhou Guanghua Accounting Firm, and a director and managing partner of Ascenda Certified Public Accountants. Mr. Han obtained a master's degree in business administration from Peking University in 2008, and is a senior accountant, certified public accountant in PRC, certified public asset appraiser in PRC and certified tax agent in PRC.

# Directors, Supervisors, Senior Management and Employees

## Supervisors

**Mr. Qiao Zhimin**, has been an employee Supervisor since 15 January 2007. Mr. Qiao is the Chairman of the Supervisory Board. He is also the convener of the Supervisory Committee and a member of the Nomination and Remuneration Committee under the Supervisory Board. Before Mr. Qiao served as the Vice Chairman of the 4th session of the Supervisory Board, he was the director of the finance and accounting department of the CBRC, leader of the PBOC regulation team for the Industrial and Commercial Bank of China (director general level official) and served concurrently as a deputy director general of the regulatory department I of the PBOC, a deputy director general and an assistant inspector of the accounting department of the PBOC, a deputy general manager of the general planning department of the head office of the Bank of China, a deputy managing director, an assistant managing director and a division director of the Bank of China Luxemburg branch, and a deputy division director of the finance and accounting department of the head office of Bank of China. Mr. Qiao obtained a master's degree and is a senior accountant.

**Mr. Xing Jijun**, has been our Supervisor since 23 March 2009. Mr. Xing is the Vice Chairman of the Supervisory Board of the Company. He is a member of the Supervisory Committee and the Nomination and Remuneration Committee under the Supervisory Board. Mr. Xing is also a director and general manager of Zhongkai Petro & Natural Gas Technology Development Corporation Limited (中開石油天然氣科技開發股份有限公司) and a director of Jinzhou Port Co., Ltd. (listed on the Shanghai Stock Exchange (SSE: 600190)). He was previously the president of Orient Group Incorporation (listed on the Shanghai Stock Exchange (SSE: 600811)), the chairman and general manager of Harbin Hatou Investment Co., Ltd., the chairman of Hafa Heat Company, Harbin Hua'er Chemical Co., Ltd., Harbin Taiping Heat Supply Co., Ltd., Harbin HI Heat Supply Co., Ltd. and Heilongjiang Shirble Electric-Heat Co., Ltd., the director of Founder Securities Co., Ltd., the vice chairman of Harbin Electric-Heat Co., Ltd., a director, a deputy general manager and an assistant to manager of Harbin Investment Group Co. Ltd., a deputy director of the general office and the director of rules and regulation inspection department of the Municipal Land and Resources Bureau of Harbin. Mr. Xing obtained a doctorate and EMBA from Tsinghua University and is a senior economist.

**Mr. Lu Zhongnan**, has been a Supervisor of the Company since 15 January 2007. He is a member of the Supervisory Committee and the Nomination and Remuneration Committee under the Supervisory Board. Mr. Lu is currently the chairman of Shenzhen New Industry Venture Capital Co., Ltd. Prior to that, Mr. Lu was the vice chairman and president of China Minzu Securities Co., Ltd. Mr. Lu was also the independent director and director of New China Life Insurance Co., Ltd. from 2001 to 2008, and was a director of Orient Group Industrial Co., Ltd. from 2001 to 2005, and served at various positions at the Heilongjiang, Harbin and Shenyang branches of the PBOC from 1979 to 2001. Mr. Lu graduated from the class of graduate course for advanced studies in economics management and is a senior economist.

**Mr. Zhang Disheng**, has been a Supervisor of the Company since 15 January 2007. He is a member of the Nomination and Remuneration Committee of the 5th Session of the Supervisory Board. Mr. Zhang is currently the chief executive officer and an executive director of Stone Group Holdings Limited. Prior to that, Mr. Zhang was the deputy executive officer and vice president of Stone Group Company from 1994 to 2000. Mr. Zhang is also a director of Stone Resources Limited, a company listed on Toronto Stock Exchange (stock code: SRH). Mr. Zhang obtained a master's degree from Ryutsu Keizai University in Japan and is a senior economist.

# Directors, Supervisors, Senior Management and Employees

**Ms. Xu Rui**, has been an external Supervisor of the Company since 15 January 2007. She is also the convener of the Nomination and Remuneration Committee and a member of the Supervisory Committee of the 5th Session of the Supervisory Board. Ms. Xu was a consultant at the operation center of China Everbright Bank from 2006 to 2007, the chairman of the board of supervisors of China Everbright Bank from 2004 to 2006, the general manager of the internal audit department of China Everbright Holdings Company Limited from 2000 to 2004, and the head of the legal department of China Everbright Holdings Company Limited from 2000 to 2001. Prior to that, Ms. Xu served at Bank of China, Jiangsu branch from 1978 to 1999, officer of business department of Bank of China, New York branch from 1981 to 1983, assistant manager and then deputy general manager of Bank of China Jiangsu Trust and Consultancy Company from 1984 to 1989, head of loan department of Bank of China, Jiangsu Branch from 1990 to 1991, and also, president of Bank of China, Nanjing branch from 1992 to 1999. Ms. Xu obtained a bachelor's degree in English Language and Literature from Nanjing University in 1969 and is a senior economist.

**Mr. Wang Liang**, has been an external Supervisor of the Company since 23 March 2009. He is also a member of the Supervisory Committee and the Nomination and Remuneration Committee under the Supervisory Board. Mr. Wang is currently a director of Dongguan Fenggang Yantian Corporate Development Co., Ltd. Prior to that, Mr. Wang was a Supervisor of the Company from 3 December, 1995 to 22 March, 2009. Mr. Wang was the chairman of Guangzhou Xinlian Co., Ltd., and Guangzhou Shanghui Economic Development Corporation and vice chairman of the Guangzhou Federation of Industry and Commerce from 1993 to 2003. Mr. Wang also served as vice dean of the Guangzhou Academy of Economic Research from 1991 to 1993. Mr. Wang obtained a bachelor's degree in accounting from Beijing School of Posts and Telecommunications (now Beijing Jiaotong University) in 1968. Mr. Wang is a senior accountant and a certified public accountant.

**Mr. Chen Jinzhong**, has been an employee Supervisor of the Company since 15 January 2007. He is also a member of the Supervisory Committee under the Supervisory Board. Mr. Chen is currently the general manager of our Beijing Administrative Department. Mr. Chen joined the Company in 2000 and served as a division director, an assistant to the director, a deputy director and the director of the general office of the Company from 2000 to 2007. Since 2007, Mr. Chen has been the general manager of our Beijing Administrative Department. Prior to that, Mr. Chen served as assistant branch manager at the Baoding branch of the PBOC from 1996 to 1998, and as deputy director of the finance department and director of the general office of the Baoding Finance College from 1987 to 1996. Mr. Chen obtained his doctorate in economics and is a senior economist and an associate professor.

**Ms. Wang Lei**, has been an employee Supervisor of the Company since 15 January 2007. She is also a member of the Supervisory Committee under the Supervisory Board. Ms. Wang is currently a credit assessment officer at the Eastern China Credit Approval Center of the Company. Ms. Wang joined the Company in 1997, starting as a deputy section chief of the internal audit department at the Shanghai branch of the Company. Since then, Ms. Wang served as assistant to the branch manager at the Hongqiao and Huangpu branches of the Company in Shanghai from 1999 to 2000, general manager of the risk management department of the Shanghai branch of the Company from 2000 to 2001, general manager of the Shixi sub-branch of the Company in Shanghai from 2001 to 2003. Ms. Wang then served at the Credit Assessment Department of the Company in 2003 and has been a credit assessment officer at the Eastern

# Directors, Supervisors, Senior Management and Employees

China credit approval center of the Company since 2004. Prior to joining the Company, Ms. Wang worked at the Urumqi branch of the Bank of Communications from 1993 to 1996. Ms. Wang completed the class of graduate course in finance of East China Normal University in February 2001.

## Senior Management

**Mr. Hong Qi** is an Executive Director and the President of the Company. Please refer to his biography under the paragraph “Directors – Executive Directors”.

**Mr. Liang Yutang** is an Executive Director and a Vice President of the Company. Please refer to his biography under the paragraph “Directors – Executive Directors”.

**Mr. Xing Benxiu**, has been appointed as a Vice President of the Company since July 2010. Mr. Xing joined the Company in 2010. Prior to joining the Company, Mr. Xing served as a deputy principal staff member of the General Planning Directorate of the PBOC from 1988 to 1991. He worked as a principal staff member of the Interest Rate Administration Directorate and deputy division director of the Savings Division of the PBOC from 1991 to 1994. He served as a deputy division director of the Banking Operation and Management Division of the PBOC from 1994 to 1998. He was a deputy director of Chinese Banking Supervision Division of the Supervision Directorate I of the PBOC and director of the Supervision Directorate from 1998 to 2003. He served as a division director of the Chinese Banking Supervision Division of the Banking Supervision Department I of the CBRC from April 2003 to July 2003. He worked as the leader of the Preparatory Team for Xiamen Bureau of the CBRC, the Director-General and Secretary of the CPC Committee of Xiamen Bureau of the CBRC from July 2003 to 2006. He also served as the Director-General and Secretary of the CPC Committee of Liaoning Bureau of the CBRC from 2006 to 2008 and the Director of the Human Resources Department of the CBRC from 2008 to June 2010. Mr. Xing obtained a master’s degree in business administration from Liaoning University.

**Mr. Shao Ping**, is a Vice President of the Company, appointed in January 2005. Mr. Shao is also the chairman of the Risk Management Commission of the Company. Mr. Shao joined the Company in 1995, and served as a deputy director, deputy general manager and general manager of our Corporate Banking Department from 1996 to 2000. He acted as managing director of our Shanghai branch and an assistant to our President from December 2000 to February 2005. Before joining the Company, Mr. Shao was deputy general manager of the Federation of Urban Credit Cooperatives of Weifang (Shandong) from 1993 to 1995, and general manager of the Urban Credit Cooperative of Weicheng District, Weifang City, Shandong Province from 1988 to 1993. He has over 21 years of experience in banking management. He obtained a doctorate degree in economics from Fudan University in Shanghai in 2008 and is a senior economist.



# Directors, Supervisors, Senior Management and Employees

**Mr. Zhao Pinzhang**, is a Vice President of the Company, appointed in April 2008. Mr. Zhao is also the chairman of our Asset and Liability Management Commission. Mr. Zhao was previously an assistant to our President from 2005 to 2008, the chief credit officer and a Supervisor of the Company from 2003 to 2007, the general manager of the Credit Assessment Department of the Company from 2001 to 2007, a deputy general manager of the Risk Management Department of the Company from 2000 to 2001, and the deputy general manager of our Beijing Administrative Department from 1998 to 2000. Prior to joining the Company, Mr. Zhao was a deputy managing director of Liaoyuan branch of Bank of Communications, and a section chief of the Liaoyuan centre sub-branch of China Construction Bank. Mr. Zhao has over 25 years of experience in banking management. Mr. Zhao obtained a master's degree in business and administration and is a senior economist.

**Mr. Mao Xiaofeng**, is a Vice President of the Company, appointed in April 2008. Mr. Mao is also the chairman of our Retail Banking Management Commission, the Board Secretary and one of the Joint Company Secretaries of the Company. Mr. Mao joined the Company as a deputy director of the general office of the Company in 2002 and has been the Board Secretary and Company Secretary of the Company since June 2003 and March 2004, respectively. Prior to joining the Company, Mr. Mao was a director of the general office of the Central Committee of Youth League Central Committee from 1999 to 2002, a deputy secretary of the Party Committee of the Zhijiang Dongzu Autonomous County of Hunan Province from 1995 to 1996, an assistant to the governor of the Zhijiang Dongzu Autonomous County of Hunan Province from 1994 to 1995 and the executive vice chairman of the All-China's Students Federation from 1992 to 1993. Mr. Mao obtained a master's degree in industrial and foreign trade from Hunan University in 1995, a doctorate in management from Hunan University in 1998, and a master's degree in public administration from the John F. Kennedy School of Government at Harvard University in the U.S.A. in 2000.

**Mr. Duan Qingshan**, has been appointed as the CFO of the Company since April 2010. Mr. Duan has also been appointed as the general manager of the Human Resources Department and director of Organization Department of Party Committee since November 2007. Mr. Duan joined the Company in 1996. He served as vice president, president and secretary of party committee of Taiyuan sub-branch of the Company from November 1996 to April 2002, and served as president and secretary of party committee of Taiyuan branch of the Company from May 2002 to October 2007. Prior to joining the Company, Mr. Duan successively served as a director of the Credit Division and Accounting Division of Yangqu sub-branch of PBOC from 1976 to 1987, and served as a director of Auditing Division of Taiyuan branch of PBOC from 1987 to 1996. Mr. Duan has over 35 years experience in banking management. Mr. Duan obtained a master's degree in business administration from Wuhan University in 2006 and he is a certified auditor. Mr. Duan was awarded as "National Excellent Innovative Entrepreneurs", "Best Corporate Culture Leader (企業文化建設優秀管理者)" and "Meritorious Entrepreneurs in Shanxi" in 2007, "Top Ten Best Financial Figures in Shanxi" (山西省十佳金融人物) in 2006, and "The National May 1st Labor Medal for Financial Institutions" and "Model Workers in Shanxi Province" in 2004.

# Directors, Supervisors, Senior Management and Employees

## Joint Company Secretaries

**Mr. Mao Xiaofeng** is the Board Secretary and the Joint Company Secretary of the Company. Please refer to his biography under the paragraph “Senior Management”.

**Ms. Soon Yuk Tai**, aged 45, is the Joint Company Secretary of the Company appointed on 2 November 2009. Ms. Soon is a director of the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Prior to joining Tricor Group in 2002, she was a senior manager of company secretarial services at Ernst & Young and Tengis Limited in Hong Kong. Ms. Soon is a chartered secretary and an associate of both the Institute of Chartered Secretaries and Administrators in United Kingdom and the Hong Kong Institute of Chartered Secretaries. Ms. Soon has extensive experience in a diversified range of corporate services and has been providing professional secretarial services to many listed companies.

## (IV) Changes of Information of Directors and Supervisors

1. Mr. Dong Wenbiao, an Executive Director of the Company, has ceased to be an independent director of Fortis Haitong Investment Management Co. Ltd since April 2011.
2. Mr. Shi Yuzhu, a Non-executive Director of the Company, has served as an independent director of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. (listed on the Shanghai Stock Exchange (SSE: 600895)) since 30 June 2011.
3. Mr. Wang Hang, a Non-executive Director of the Company, has ceased to be the chairman and president of Sichuan South Hope Industrial Co., Ltd. since 17 November 2011.
4. Mr. Han Jianmin, an Independent Non-executive Director of the Company, has served as an independent director of Dongxing Securities Co., Ltd. since December 2011. He has ceased to be an independent director of Beijing Mainstreets Investment Group Corporation (listed on the Shenzhen Stock Exchange (SHE: 000609)) since June 2011 and Shandong Polymer Bio-Chemicals Co. Ltd. (listed on the Shenzhen Stock Exchange (SHE: 002476)) since December 2011, respectively.
5. Mr. Xing Jijun, a Supervisor of the Company, has served as a director and general manager of Zhongkai Petro & Natural Gas Technology Development Corporation Limited (中開石油天燃氣科技開發股份有限公司) since October 2011.
6. Mr. Lu Zhongnan, a Supervisor of the Company, has served as the chairman of the board of Shenzhen New Industry Venture Capital Co., Ltd. and has ceased to be the vice chairman of the board and president of China Minzu Securities Co., Ltd. since August 2011.

# Directors, Supervisors, Senior Management and Employees

## (V) Directors, Supervisors and Senior Management resigned in the reporting period and the reasons therefor

No directors, supervisors or senior management resigned during the reporting period.

## (VI) Service contracts of Directors and Supervisors

In accordance with Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, the Company has entered into contracts with its Directors and Supervisors in respect of compliance with the relevant laws and regulations, the Articles of Association of the Company and the provisions of arbitration. Except as disclosed above, the Company has not intended and does not intend to enter into any service contract with its Directors or Supervisors in respect of their services of Directors or Supervisors (excluding the service contracts which will expire within one year or are determinable by the Group within one year without payment of compensation, other than statutory compensation).

## II. Employees

As of the end of the reporting period, the Group had 40,820 employees, of which 39,885 were employees of the Company and 935 were employees of the subsidiaries of the Company. Divided by professional specialties, 3,771 were categorized as management team, 19,237 as marketing team, and 16,877 as technical team. The Company had 36,625 employees with degrees of diploma and above, accounting for 92% of the total. In addition, the Company had 76 retired employees.



# Directors, Supervisors, Senior Management and Employees

The guiding principles of the Company's remuneration policy in 2011 were to determine and allocate remuneration and resources with an aim to strengthen protection of major strategic assets, enhance capital control, streamline business structure and enhance the core values of the Company and to reinforce cost-effective management of operations according to the overall strategies of the Company and the needs for business development, as well as to provide full protection and incentives to staff under the Company's welfare policy by further improving the welfares and protections of staff and developing and exploring more new benefit policies so as to establish an all-round, multi-level, short-term and long-term combined welfare and protection system.

The Company based its employee training on the idea of "human resources management". The guiding principle of the training was to have clear positioning with distinct focuses and targets through introducing innovative activities to enhance employees' competence. To integrate reform, business development, personal growth and system establishment, the Company has been introducing innovative ideas and methods of training and management. It also strengthened the establishment of its management system and supervision. It fully capitalized on its fundamental and strategic training for improving the competitiveness of the Company and facilitated its strategic transformation, bank structure enhancement and employee development. In 2011, the Company held 2,984 training programs with the attendance figures of 186,394, achieving a 100% coverage rate in a total of 9,610 days of training.

## III. Business Network

As at the end of the reporting period, the Company had set up 32 branches in 32 cities across China, as well as one representative office in Hong Kong, with 590 banking outlets in total.

Major entities of the Company as at the end of the reporting period are shown as follows:

| Name of entity                    | Number of outlets | Headcount | Total assets (excluding deferred income tax assets) (in RMB million) | Address  |
|-----------------------------------|-------------------|-----------|--|--|
| Head Office                       | 1                 | 13,078    | 634,218  | No. 2 Fuxingmennei Avenue, Xicheng District, Beijing   |
| Beijing Administrative Department | 51                | 2,727     | 435,961  | No. 2 Fuxingmennei Avenue, Xicheng District, Beijing   |
| Shanghai Branch                   | 52                | 2,377     | 279,846  | No. 100 Pudong Nan Road, Pudong New Area, Shanghai   |
| Guangzhou Branch                  | 33                | 1,553     | 83,298   | Guangzhou Minsheng Tower, No. 68 Liede Avenue, Zhujiang New Town, Tianhe District, Guangzhou |
| Shenzhen Branch                   | 36                | 1,205     | 106,197  | CMBC Building, 11th Xinzhou Street, Futian District, Shenzhen                                |
| Wuhan Branch                      | 30                | 1,299     | 76,808   | CMBC Building, No. 396 Xinhua Road, Jiangnan District, Wuhan                                 |
| Taiyuan Branch                    | 22                | 1,050     | 71,732   | No. 2, Bingzhou Bei Road, Taiyuan  |
| Shijiazhuang Branch               | 27                | 1,326     | 64,406   | No. 10, Xidajie, Shijiazhuang  |
| Dalian Branch                     | 17                | 703       | 43,390   | No. 28, Yan'an Road, Zhongshan District, Dalian  |
| Nanjing Branch                    | 31                | 1,582     | 134,144  | No. 20, Hongwu Bei Road, Nanjing   |
| Hangzhou Branch                   | 25                | 1,313     | 108,535  | Yuanyang Building, No. 25, Qingchun Road, Hangzhou   |
| Chongqing Branch                  | 20                | 836       | 71,673   | Tongjuyuanjing Building, No. 9, Jianxin Bei Road, Jiangbei District, Chongqing               |

# Directors, Supervisors, Senior Management and Employees

| Name of entity                  | Number of outlets | Headcount     | Total assets (excluding deferred income tax assets) (in RMB million) | Address   |
|---------------------------------|-------------------|---------------|--|---|
| Xi'an Branch                    | 17                | 815           | 48,802   | CMBC Building, No. 78, Erhuan Nanlu Xiduan, Xi'an   |
| Fuzhou Branch                   | 17                | 632           | 27,677   | CMBC Building, No. 280, Hudong Road, Gulou District, Fuzhou                                       |
| Jinan Branch                    | 17                | 988           | 61,472   | No. 229, Leyuan Street, Jinan   |
| Ningbo Branch                   | 16                | 674           | 30,129   | No. 348, Min'an Road, Jiangdong District, Ningbo  |
| Chengdu Branch                  | 26                | 957           | 65,951   | Building No. 6, No. 966, Tianfu Avenue North, Hi-Tech Zone, Chengdu                               |
| Tianjin Branch                  | 17                | 737           | 32,790   | 13/F, Xinda Plaza, No. 188, Jiefang North Road, Heping District, Tianjin                          |
| Kunming Branch                  | 15                | 485           | 31,549   | Chuntian Yinxiang Building, No. 331, Huancheng Nan Road, Kunming                                  |
| Quanzhou Branch                 | 10                | 400           | 16,048   | No. 689, Citong Road, Fengze District, Quanzhou   |
| Suzhou Branch                   | 13                | 778           | 49,405   | Minsheng Financial Plaza, Block 23, Suzhou Times Square, Suzhou Industrial Park, Suzhou           |
| Qingdao Branch                  | 15                | 724           | 28,468   | No. 18, Fuzhou Nan Road, Shinan District, Qingdao   |
| Wenzhou Branch                  | 8                 | 474           | 22,289   | Development Building, No. 335, Xincheng Road, Lucheng District, Wenzhou                           |
| Xiamen Branch                   | 10                | 431           | 50,201   | Lixin Plaza, No. 90, Hubin Nan Road, Xiamen   |
| Zhengzhou Branch                | 18                | 581           | 38,614   | CMBC Building, No. 1, CBD Shangwu Waihuan Road, Zhengdong New District, Zhengzhou                 |
| Changsha Branch                 | 11                | 508           | 27,662   | No. 669, Furong Zhong Road 1 Duan, Changsha   |
| Changchun Branch                | 7                 | 337           | 13,971   | No. 500, Changchun Street, Changchun  |
| Hefei Branch                    | 7                 | 340           | 18,900   | Tian Qing Building, No. 135, Bozhou Road, Hefei   |
| Nanchang Branch                 | 7                 | 395           | 22,925   | No. 237, Xiangshan Bei Road, Donghu District, Nanchang  |
| Shantou Branch                  | 7                 | 282           | 8,899  | 1-3/F, Huajing Plaza, No. 17, Hanjiang Road, Longhu District, Shantou                             |
| Nanning Branch                  | 2                 | 129           | 5,724  | East Wing, Guangxi Development Tower, No. 111-1 Minzu Avenue, Nanning                             |
| Hohhot Branch                   | 2                 | 86            | 25,144   | Block D and 1-3/F, Block A., Fortune Building, Xinhua East Road, Saihan District, Hohhot          |
| Shenyang Branch                 | 2                 | 52            |  | Block A, Royal Wan Xin International Mansion, No. 390, Qingnian Street, Heping District, Shenyang |
| Hong Kong Representative Office | 1                 | 31            |  | 36/F, Bank of American Tower, 12 Harcourt Road, Central, Hong Kong                                |
| Inter-regions adjustment        |                   |               | (581,210)  |   |
| <b>Total</b>                    | <b>590</b>        | <b>39,885</b> | <b>2,155,618</b>   |   |

Note: 1. The number of outlets takes into account all types of banking establishments, including the head office, tier-one branches, business departments of branches, tier-two branches, sub-branches and representative offices.

2. Total headcount of the Head Office is the total number of the employees in Real Estate Finance SBU, Energy Finance SBU, Transportation SBU, Metallurgy Finance SBU, Trade Finance SBU, Credit Card Center, Financial Market SBU and other SBUs.

3. Inter-region adjustments arise from the reconciliation and elimination of inter-region balances.

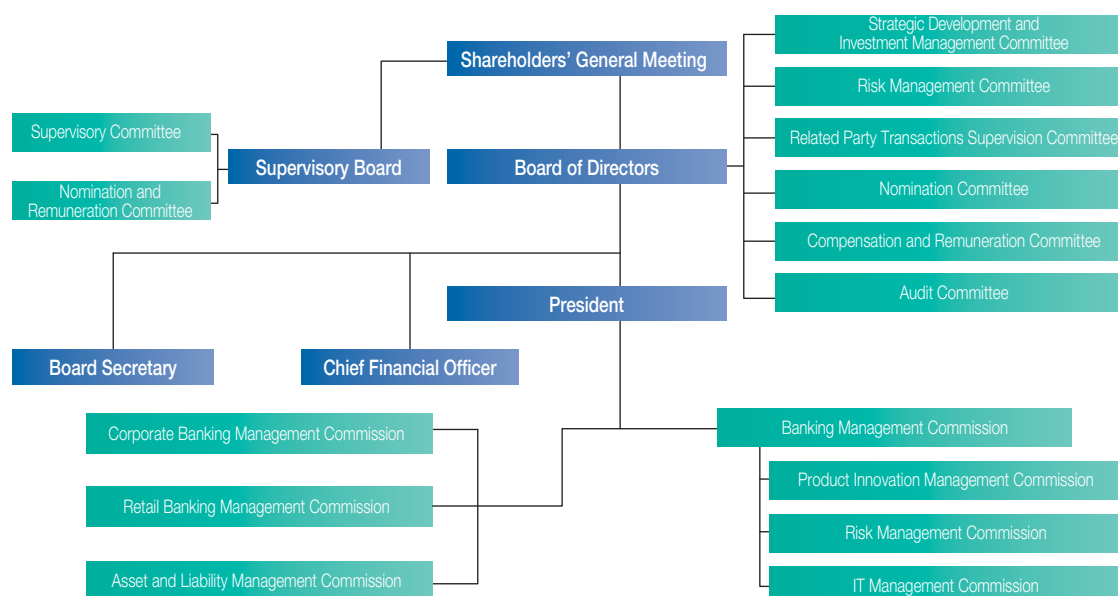
4. The Shenyang Branch was approved to commence business on 22 December 2011.

5. The Hong Kong Representative Office has been upgraded to the Hong Kong Branch upon being granted a banking license from Hong Kong's Monetary Authority on 5 January 2012.

# Corporate Governance



## I. Corporate Governance Structure



## II. Corporate Governance Overview

During the reporting period, the Company focused on establishing a transparent and efficient corporate governance system and structure, refining its systems, strengthening its internal control, optimizing its risk management, conducting due diligence assessment and examination of the Directors and Senior Management, and enhancing the understanding of the Directors and Supervisors on the operation of the Company through various means including non-decision-making meetings and research and investigation of the Bank. Details are as follows:

1. During the reporting period, the Company had coordinated and prepared a total of 87 meetings, including 2 Shareholders' General Meetings, 12 Board meetings, 1 non-decision-making meeting of the Board, 53 meetings of the special committees of the Board, 6 meetings of the Supervisory Board and 13 meetings of the special committees of the Supervisory Board. Over 210 resolutions such as the Company's periodical reports, working reports of the Board of Directors and the Supervisory Board, working report of the President, financial budgets and final accounts, profit distribution proposals, major connected transactions and the write-off of large amount of bad debts were approved in these meetings.
2. With reference to the domestic and overseas regulatory requirements, the Company has formulated and amended the Provisional Administrative Measures on consolidated Financial Statements of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司併表管理辦法(試行)), Administrative Measures on Liquidity Risk of China Minsheng Banking Corp., Ltd. (2011 version) (中國民生銀行股份有限公司流動性風險管理辦法(2011年版)), Terms of Reference of President of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司行長工作細則), Working

Rules for Board Secretary of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司董事會秘書工作制度), Terms of Reference of Board Secretary of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司董事會秘書工作細則), Provisional Measures on Performance Supervision and Appraisal of the Board and Directors by Supervisory Board of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司監事會對董事會及董事履職監督評價試行辦法), Provisional Implementation Rules on Performance Supervision and Appraisal of the Board and Directors by Supervisory Board of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司監事會對董事會及董事履職監督評價實施細則 (試行)) and Provisional Measures on Performance Supervision and Appraisal of Senior Management by Supervisory Board of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司監事會對高級管理層及其成員履職監督評價試行辦法), to further improve the corporate governance system.

3. Pursuant to the regulations and rules of the Provisional Measures on Performance Appraisal of Senior Management of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司高級管理人員盡職考評試行辦法), the Company evaluated the performance of Senior Management appointed by the Board, and determined their remunerations and duties in accordance with the results to improve their capabilities in fulfilling duties, and to optimize the systematic, standardized and regular performance evaluation system for the Senior Management.

Pursuant to the Provisional Measures on Performance Appraisal of Directors of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司董事履職評價試行辦法), the Company has completed the first annual appraisal of Directors' performance under the guidance of the Compensation and Remuneration Committee of the Board and promoted due diligence and self-discipline of the Directors.

4. The Board of Directors of the Company required the management to report the development of credit card business and private banking business of the Bank case by case through specific presentations at non-decision-making meetings, so as to obtain comprehensive understanding on the development of operation conditions and the SBU reform in a timely manner, and form a basis for decision-making of the Directors. The Company also made full use of the public education and training programs provided by regulatory authorities and arranged Directors and Supervisors in different groups to participate in the directors and supervisors training programs provided by regulatory authorities. All of our Directors and Supervisors satisfied the training requirements in relation to their qualifications by the regulatory authorities and improved their capabilities in carrying out duties.
5. During the reporting period, the Supervisory Board of the Company held various meetings to consider relevant resolutions on the Company's major works, attended the meetings of the Board and important business meetings of the Senior Management, supervised and advised on major issues including legal operation, financial reporting and internal control, continued to improve the mechanism of the Supervisory Board and enhanced the supervision and evaluations on the performance of Directors, Supervisors and Senior Management in accordance with the Company Law, Articles of Association and requirements of regulatory authorities. It also carried out specific examinations, inspections and researches and performed its responsibilities in supervision seriously and effectively, which facilitates the regulated operation and sustainable development of the Company.



6. During the reporting period, the Company fully utilized the duties of the Board in respects of risk supervision and management. The Board put much efforts on the approval of businesses with excessive risks, annual risk management guidelines, risk assessment and risk study which enhanced the control and management of the overall operational risk of the Company and further upgraded the overall risk management. Through the approvals of businesses with excessive risks, the Board's preference and thoughts



on risk management could be better conveyed. The Board formulated the Risk Management Guidelines of the Board in 2011 (董事會2011年度風險管理指導意見) to provide guidelines for specific risk management which covered the policy guidelines, credit risk management, market risk management, liquidity risk management and IT risk management for its regulatory departments. The implementation of risk assessment semi-annually by the Board had consolidated the risk control role of the Board and ensured the Board had a view of the risk control of the Company. The Board also conducted various thorough risk studies and investigations to provide reference for the decision-making in respect of risk management.

7. During the reporting period, in compliance with Commercial Bank Law of the PRC (中華人民共和國商業銀行法), Guidelines for Internal Control of Commercial Banks (商業銀行內部控制指引) and other laws and regulations and regulatory rules, the Company has improved and enhanced its internal control system. By fully implementing the Basic Standard for Enterprise Internal Control (企業內部控制基本規範), New Basel II Accord, middle and back office support system and other internal management measures, the Company has enhanced its overall scientific and detailed management. The Company has maintained the quantitative management of the internal control of its operating entities and enhanced the organic growth of the smooth operation of its operating entities by implementing a comprehensive internal control assessment on its operating entities.

8. During the reporting period, the Company has endeavored to enhance and improve its management of connected transactions by strengthening the implementation of its policies and introducing innovative control measures in order to ensure that on the basis of regulatory compliance, great enhancement was achieved in the management efficiency of its connected transactions.

9. During the reporting period, the Supervisory Board oversaw the operation and management of the Company in accordance with its responsibilities and regulatory requirements. It organized and conducted two specific examinations on credit granting to corporate group customers and bills business, and a special audit on final accounts of redevelopment and expansion project of China Minsheng Bank Tower (Shanghai). The Supervisory Board also organized supervisor teams to pay inspection visits to 8 branches and 2 Minsheng township banks. Based on the results of the inspections and visits, the Supervisory Board submitted 35 management proposals to the Board and Senior Management, which ensured the compliance of our operation and facilitated healthy development of the Company.
10. A total of 7 issues of Newsletters of the Board of Directors (董事會工作通訊), 50 issues of Internal Circulars (內部參考) and 18 issues of Newsletter of the Supervisory Board (監事會信息通報) were published during the reporting period, serving as a convenient and effective communication platform of corporate governance among the Board of Directors, the Supervisory Board and the Senior Management, and among the Directors and Supervisors.
11. During the reporting period, the Company has disclosed all material information in a timely, accurate, true and complete manner and continued to enhance the transparency of the Company, ensuring all shareholders have equal opportunity to access the information of the Company. The Company has organized various investor events to effectively improve communications with investors and consolidate the Company's status and influence in capital market. Please refer to "Information Disclosure and Investor Relations" in this section for details.

The Company has conducted a thorough internal inspection and was not aware of any non-compliance of the Company's corporate governance with the regulations regarding corporate governance of listed companies promulgated by the CSRC. There were no irregularities of corporate governance and no information has been provided to substantial shareholders or beneficial owners before such information being published.

The Company has complied with the provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange and has been dedicated to maintaining a high standard of corporate governance.

### III. Board of Directors

The Board is an independent decision-making body of the Company, responsible for execution of the resolutions passed by the shareholders' general meetings; devising the Company's major principles, policies and development plans; deciding on the Company's operating plans, investment proposals and the establishment of internal management units; preparing annual financial budgets, final accounts and profit distribution plans; and appointing members of Senior Management. The Company's management team shall operate the Company independently and the Board of Directors shall not interfere with the daily operation and management of the Company.

## **(I) Composition of the Board**

As at the end of the reporting period, the Board of the Company has 18 members, of which 9 are Non-executive Directors, 3 are Executive Directors and 6 are Independent Non-executive Directors. All Non-executive Directors held key positions in renowned enterprises and are experienced in management, banking and finance, while the 3 Executive Directors have been engaged in banking operation and management for a long time with extensive professional experience. The 6 Independent Non-executive Directors are experts in economic, finance, treasury, law and human resources. One of the Independent Non-executive Directors is from Hong Kong and has been familiar with the IFRS and practices of the Hong Kong capital market.

The members of the Board are professional and independent and have a wide range of experiences which help to ensure that the Board can make decision in a rational manner.

The Directors of the Company and their profiles are shown in Chapter 5 of this report. Among the members of the Board of the Company, Mr. Liu Yonghao is the chairman and substantial shareholder of New Hope Group Co., Ltd.; Mr. Wang Hang is a director and the vice president of New Hope Group Co., Ltd. Save for the above, the members of the Board are not related, including in terms of finance, business, family or other material relations or relevant relations. The status of Independent Non-executive Director has been indicated clearly in all communication of the Company which lists the name of Directors to comply with the provisions of the Hong Kong Listing Rules.

## **(II) Responsibilities and duties of the Board**

The Board of the Company may exercise the following functions and powers:

1. to convene shareholders' general meetings and to report its performance to shareholders;
2. to implement the resolutions passed at the shareholders' general meetings;
3. to decide on the Company's operational plans and investment plans;
4. to formulate the Company's proposed annual budget and annual final accounts;
5. to formulate the Company's profit distribution plans and plans for recovery of losses;
6. to formulate proposals for increases or reductions of the Company's registered share capital, issuance of bonds or other securities and listing plans;
7. to formulate proposals for material acquisitions, the purchase of the Company's shares, merger, division, dissolution and change of Company form;
8. to decide on external investments, purchases and sales of assets, pledges of assets, material guarantees, and connected transaction matters within the scope authorized by the Company's shareholders' general meetings;

9. to decide on the establishment of the Company's internal management structure;
10. to appoint or remove the Company's President and CFO based on the recommendations of the Nomination Committee; to appoint or remove Board Secretary based on the recommendations of the Chairman of the Board; to appoint or remove the Senior Management, such as Vice Presidents and financial officers of the Company based on the recommendations of the President and to decide on matters relating to their remunerations, reward and the imposition of any disciplinary measures;
11. to approve the appointment or dismissal of President, Vice Presidents and other Senior Management of branches whose qualifications had been accredited by the CBRC;
12. to establish the Company's basic management system;
13. to formulate proposals for any amendment to the Company's Articles of Association;
14. to manage the Company's disclosure of information;
15. to propose at the shareholders' general meetings for the appointment or replacement of the Company's accounting firms for audit purpose;
16. to review working reports of the President of the Company and to examine the President's performance;
17. the Board shall establish a supervisory system to ensure that the management body will formulate a code of conduct and working principles for the management staff and the business personnel at all levels and that the regulatory documents will specifically require employees at all levels promptly report any possible conflict of interests, provide detailed rules and establish corresponding mechanism;
18. the Board shall establish an information reporting system that requires the Senior Management to report to the Board and Directors the operational issues of the Company regularly, and the reporting system shall cover provisions for the following issues: the scope of the information reported to the Board and Directors and the lowest reporting standards, the reporting frequency, the reporting method, the responsible body and liabilities arising from delayed or incomplete reporting and the confidentiality requirements; and
19. to exercise any other powers prescribed by the applicable laws, administrative regulations and departmental rules, as well as any other powers conferred by the Company's Articles of Association.

After the election by shareholders of the Company, except the current term of office of Mr. Qin Rongsheng, Mr. Wang Lihua and Mr. Han Jianmin in the Board of Directors of the Company became effective from 9 September 2009 and will expire on 23 March 2012, the current term of office of other current Directors of the Company became effective from 23 March 2009 and will expire on 23 March 2012.

### (III) Board meetings and contents of resolutions

During the reporting period, 12 board meetings were held by the Board of Directors to consider and approve major resolutions in relation to strategies, policies, finance and operation of the Company.

| Meeting   | Date             | Publication  | Date of disclosure |
|---|------------------|--|--------------------|
| 14th Meeting of the 5th session of the Board              | 7 January 2011   | Shanghai Securities News, China Securities Journal, Securities Times and Financial Times | 8 January 2011     |
| 15th Meeting of the 5th session of the Board              | 14 February 2011 | Shanghai Securities News, China Securities Journal, Securities Times and Financial Times | 15 February 2011   |
| 5th Extraordinary Meeting of the 5th session of the Board | 25 February 2011 | Shanghai Securities News, China Securities Journal, Securities Times and Financial Times | 26 February 2011   |
| 16th Meeting of the 5th session of the Board              | 25 March 2011    | Shanghai Securities News, China Securities Journal, Securities Times and Financial Times | 26 March 2011      |
| 17th Meeting of the 5th session of the Board              | 27 April 2011    | (Exempted from announcement requirement according to relevant provisions)                |                    |
| 6th Extraordinary Meeting of the 5th session of the Board | 9 May 2011       | Shanghai Securities News, China Securities Journal, Securities Times and Financial Times | 10 May 2011        |
| 18th Meeting of the 5th session of the Board              | 5 July 2011      | Shanghai Securities News, China Securities Journal, Securities Times and Financial Times | 6 July 2011        |
| 7th Extraordinary Meeting of the 5th session of the Board | 11 July 2011     | (Exempted from announcement requirement according to relevant provisions)                |                    |
| 19th Meeting of the 5th session of the Board              | 16 August 2011   | Shanghai Securities News, China Securities Journal, Securities Times and Financial Times | 17 August 2011     |
| 20th Meeting of the 5th session of the Board              | 27 October 2011  | Shanghai Securities News, China Securities Journal, Securities Times and Financial Times | 28 October 2011    |
| 8th Extraordinary Meeting of the 5th session of the Board | 23 November 2011 | (Exempted from announcement requirement according to relevant provisions)                |                    |
| 21th Meeting of the 5th session of the Board              | 30 December 2011 | Shanghai Securities News, China Securities Journal, Securities Times and Financial Times | 31 December 2011   |

In the above 12 meetings, 52 resolutions in respect of 4 periodical reports, working reports of the Board of Directors, working reports of the President, financial budgets and final account reports, profit distribution proposals, major connected transactions and the write-off of large amount of bad debts were approved.

The following table sets out the attendance records of Directors in the meetings of the Board in 2011:

| Directors     | Attendance/Number of Meetings |
|---------------|-------------------------------|
| Dong Wenbiao  | 12/12                         |
| Zhang Hongwei | 12/12                         |
| Lu Zhiqiang   | 12/12                         |
| Liu Yonghao   | 12/12                         |
| Wang Yugui    | 12/12                         |
| Chen Jian     | 12/12                         |
| Wong Hei      | 12/12                         |
| Shi Yuzhu     | 12/12                         |
| Wang Hang     | 12/12                         |
| Wang Junhui   | 12/12                         |
| Liang Jinqun  | 12/12                         |
| Wang Songqi   | 12/12                         |
| Andrew Wong   | 12/12                         |
| Qin Rongsheng | 12/12                         |
| Wang Lihua    | 12/12                         |
| Han Jianmin   | 12/12                         |
| Hong Qi       | 12/12                         |
| Liang Yutang  | 12/12                         |

#### **(IV) Implementation of the resolutions of the Shareholders' General Meetings by the Board of Directors**

The Board of the Company has distributed dividends to the shareholders according to the 2010 profit distribution plan approved at 2010 general meeting. On the basis of a total of 26,714,732,987 issued shares (including both A Shares and H Shares) as at 31 December 2010, a cash dividend of RMB1.00 (before tax) for every 10 shares, for a total of cash dividend of approximately RMB2,672 million, was distributed to shareholders whose names appeared on the Register immediately after the trading hours on 8 June 2011. The cash dividend was denominated and declared in Renminbi. The holders of A Shares were paid in Renminbi and the holders of H Shares were paid in Hong Kong dollars. The Company distributed cash dividend to the holders of A Shares and H Shares on 14 June 2011 and 26 July 2011, respectively.

For details of implementation, please refer to announcements issued by the Company.

#### **(V) Performance of Independent Non-executive Directors**

The Board of the Company comprises 6 Independent Non-executive Directors. The qualification, number and proportion of Independent Non-executive Directors are in compliance with the provisions of the CBRC, CSRC, and

the Listing Rules of the Shanghai Stock Exchange and Hong Kong Listing Rules. During the reporting period, these Independent Non-executive Directors have duly performed their duties by maintaining communication with the Company through various means, such as on-site visits and conferences, attending the Board meetings and meetings of the special committees conscientiously, making suggestions actively and emphasizing on minority shareholders' interests.

## **1. On-duty policy for Independent Non-executive Directors**

To better perform the duties of Independent Non-executive Directors and improve the effectiveness of the Board, the Board of the Company has adopted an on-duty policy since March 2007 pursuant to which Independent Non-executive Directors are required to work in the Bank for 1 to 2 days per month. The Company provided the offices and facilities for Independent Non-executive Directors. All Independent Non-executive Directors have complied with the on-duty policy. The main duties of the Independent Non-executive Directors while they are on duty are: to study the works of their respective committees; to consider and determine the proposals put forwarded by the committees; to review work reports of the Senior Management or various departments of the head office; and to discuss and determine or amend any relevant corporate governance policy. During the reporting period, the Independent Non-executive Directors had worked in the Bank for 35 days in aggregate, had 61 meetings with the management and the relevant department staff and made more than 20 proposals. It is an innovative policy of the Company to allow the Independent Non-executive Directors to conduct professional study and provide professional advice to the Board, which greatly helped the Board to make rational and independent decisions.

## **2. Rules Governing Independent Non-executive Directors' Work on Annual Reports**

To further improve the corporate governance of the Company and have Independent Non-executive Directors closely involved in information disclosure to ensure the truthfulness, accuracy, completeness and timeliness of the information disclosed in the Annual Report of the Company, the Resolution on Involvement of Independent Non-executive Directors in the Preparation of Annual Report (獨立董事年報工作制度) was considered and approved at the 16th Meeting of the 4th session of the Board on 29 February 2008.

Pursuant to such resolution, Independent Non-executive Directors are required to perform their responsibilities and duties diligently in the process of preparation and disclosure of the Annual Report of the Company. The management of the Company shall report the annual operating results and material issues to the Independent Non-executive Directors within 60 days after the end of each financial year. The Independent Non-executive Directors may conduct investigation on certain issues if necessary. The Independent Non-executive Directors shall assess the qualification of the accounting firms to be engaged by the Company and the qualification of the certified public accountants responsible for the audit of the Annual Report of the Company. Upon the issuance of the preliminary audit opinion, the Independent Non-executive Directors shall hold at least one meeting with the auditor to discuss the issues found identified in the audit process before a Board meeting is convened to review the annual report.

Pursuant to such resolution, Independent Non-executive Directors have performed their responsibilities and duties diligently and strictly comply with the relevant provisions of the Company and regulatory authorities in preparation and disclosure of the 2011 Annual Report of the Company. Independent Non-executive Directors have reviewed reports of the management on the operating results and material issues in 2011, maintained communication with the accounting firm in respect of the annual audit and reviewed audit plans, report on pre-audit and audit from the accounting firm, and examined the actual operating results of the Company.

### **3. Other duties of Independent Non-executive Directors**

The Independent Non-executive Directors shall give independent opinion on the following issues at the Board meetings or shareholders' general meetings:

- (1) Nomination, appointment and removal of Directors;
- (2) Appointment or removal of Senior Management;
- (3) Remuneration of Directors and Senior Management;
- (4) Major and very substantial connected transactions between the shareholders, ultimate controllers and their respective related companies and the Company, and whether the Company has taken effective measures to collect outstanding payments;
- (5) Issues that Independent Non-executive Directors considered may damage the interests of minority shareholders;
- (6) Other issues stipulated in the Articles of Association of the Company.

The Independent Non-executive Directors of the Company also played important roles in various special committees of the Board. They acted as the convener of the meetings of the Nomination Committee, Compensation and Remuneration Committee, Audit Committee, Related Party Transactions Supervision Committee. At least one Independent Non-executive Director in each of the Audit Committee and Related Party Transactions Supervision Committee has professional accounting experience.

### **4. Attendance of the Independent Non-executive Directors to the meetings during the year:**

All Independent Non-executive Directors of the Company were responsible and diligent in attending the Board meetings during the reporting period.



## **Attendance record of the Independent Non-executive Directors to the Board meetings in 2011**

| Directors     | Number of meetings | Attendance in person | Attendance by proxy | Remarks  |
|---------------|--------------------|----------------------|---------------------|--|
| Liang Jinquan | 12                 | 11                   | 1                   | Wang Lihua was appointed as a proxy to attend the 5th Extraordinary Meeting of the 5th session of the Board. |
| Wang Songqi   | 12                 | 12                   | —                   |  |
| Andrew Wong   | 12                 | 12                   | —                   |  |
| Qin Rongsheng | 12                 | 12                   | —                   |  |
| Wang Lihua    | 12                 | 11                   | 1                   | Director Liang Jinquan, was appointed as a proxy to attend the 19th Meeting of the 5th session of the Board. |
| Han Jianmin   | 12                 | 12                   | —                   |  |

### **(VI) Chairman of the Board and President**

The roles and duties of the Chairman of the Board and the President of the Company are performed by different persons with clearly defined responsibilities as provided by the Listing Rules of the Hong Kong Stock Exchange. The Chairman of the Board, Mr. Dong Wenbiao, is responsible for leading the Board and acting as the Chairman of the board meetings. He shall ensure that all Directors are well informed of the issues to be discussed during the Board meetings. He is also responsible for the management of the operation of the Board and ensures that the Board shall discuss all major and relevant issues in a timely and constructive manner. In order to allow the Board to discuss all major and relevant issues in time, the Chairman of the Board maintains close contact with relevant Senior Management to ensure that the Directors can promptly receive appropriate, complete and reliable information for their consideration and review.

Mr. Hong Qi is the President of the Company. He is responsible for business operation of the Company and implementation of the strategies and business plans of the Company.

### **(VII) Securities transactions by Directors, Supervisors and relevant employees**

The Company has adopted its own code of conduct regarding Directors' and Supervisors' dealings in the securities on terms no less exacting than the Model Code as set out in the Appendix 10 of the Hong Kong Listing Rules. The Company has made specific enquiries to all Directors and Supervisors who have confirmed that they have complied with the above-mentioned Code for the year ended 31 December 2011. The Company also formulated the guidelines on dealings in securities of the Company by employees, which are no less strict than the Model Code. The Company is not aware of any non-compliance with these guidelines by the relevant employees.

### **(VIII) Responsibility statement of Directors regarding preparation of account**

All Directors of the Company had committed their responsibilities to the preparation of the Company's account for the year ended 31 December 2011.

## IV. Special Committees of the Board

Members, functions and powers of the 6 special committees of Board and their works in 2011 are as follows:

### (I) Strategic Development and Investment Management Committee

#### 1. Composition of the Strategic Development and Investment Management Committee and meetings in 2011

The Strategic Development and Investment Management Committee of the 5th session of the Board had 7 members. The Chairman of the Committee is Dong Wenbiao and the members are Zhang Hongwei, Lu Zhiqiang, Liu Yonghao, Wang Junhui, Wang Songqi and Hong Qi.

In 2011, the Strategic Development and Investment Management Committee convened 5 meetings, considered 12 proposals, reviewed 7 reports and discussed 1 proposal. The attendance record is as follows:

| Members                                  | Attendance/Number of Meetings |
|--|-------------------------------|
| Non-executive Directors                  |                               |
| Zhang Hongwei                            | 5/5                           |
| Lu Zhiqiang                              | 5/5                           |
| Liu Yonghao                              | 5/5                           |
| Wang Junhui                              | 5/5                           |
| Executive Directors                      |                               |
| Dong Wenbiao (Chairman of the Committee) | 5/5                           |
| Hong Qi                                  | 5/5                           |
| Independent Non-executive Director       |                               |
| Wang Songqi                              | 5/5                           |

#### 2. Major achievements of the Strategic Development and Investment Management Committee in 2011

In 2011, the Strategic Development and Investment Management Committee, under the guidance of the Board, focused on the major works of the Board to achieve the “Second Take-off” as mentioned by the Chairman, played an active role in strengthening our corporate governance and fully performing the Board’s functions by duly performing its responsibilities, launching innovative and effective strategic management, accelerating the establishment of township banks smoothly, and implementing centralized group management.

##### (1) Performing daily duties of the Strategic Development and Investment Management Committee

The Strategic Development and Investment Management Committee convened 5 meetings in 2011 to discuss major issues of the Company. It also strengthened researches and on-site visits and prepared 21 research reports for the Directors’ reference in making decisions.

##### (2) Strengthening strategic management

A comprehensive review on strategic management of the Company was carried out and the relevant report was prepared. Measures on Strategic Management (戰略管理辦法) was formulated after reviewing the overall strategic management.

### **(3) Establishment of township banks**

In 2011, the Company established 9 township banks, namely Yidu Minsheng Township Bank, Zhongxiang Minsheng Township Bank, Shanghai Jiading Minsheng Township Bank, Penglai Minsheng Township Bank, Anxi Minsheng Township Bank, Funing Minsheng Township Bank, Taicang Minsheng Township Bank, Ningjin Minsheng Township Bank and Zhangpu Minsheng Township Bank. Meanwhile, the Company continued to streamline the process and system of the establishment of township banks, and established a sound system for the establishment, operation and management of township banks.

### **(4) Capital management and combined financial statement management of the Group**

The Committee carried out capital management of the Company by formulating the Report on Capital Condition of the Bank in 2010 (2010年全行資本狀況報告), Capital Use and Replenishment Plan in 2011 (2011年資本使用與補充計劃), Report on Capital Condition of the Bank in the First Half of 2011 (2011年上半年全行資本狀況報告) and Report on Subsequent Capital Replenishment of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司後續資本補充情況報告) and conducted studies on the capital raising activities of the Company.

The Committee also coordinated combined financial statement management, organized reviews on on-site visits of combined financial statement management of the Company by the Beijing Municipal Bureau of CBRC, and formulated and promulgated the Provisional Administrative Measures on Combined Financial Statement Management of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司並表管理辦法(試行)).

### **(5) Management of affiliated entities**

The Committee further strengthened the group management of affiliated entities and optimized relevant management system and process, and implemented management measures in accordance with the actual situation of affiliated entities.

The Committee incorporated combined financial statement management and group management into corporate governance of Minsheng Leasing and Minsheng Fund, and continued to develop the management over township banks based on the general idea of “consolidated and standardized development, centralized risk control, sharing of resources, and diversified and flexible operation” to support and lead healthy and sustainable development of Minsheng township banks by taking the following measures: developing on-site inspection system and regular assessment and supervision system to enhance risk management of Minsheng township banks, facilitating the establishment of integrated operation and management platform, creating a unified brand promotion and business experience sharing platform as well as strengthening the tracking and research of Minsheng township bank development.

## **(II) Nomination Committee**

### **1. Composition of the Nomination Committee and meetings in 2011**

The Nomination Committee under the 5th session of the Board comprised 9 members, the Chairman is Liang Jinqian and the members are Zhang Hongwei, Wang Yugui, Wang Hang, Andrew Wong, Qin Rongsheng, Wang Lihua, Han Jianmin and Hong Qi. The Nomination Committee convened 5 meetings, reviewed 15 proposals and 1 report in 2011. The attendance record is as follows:

| Members                                  | Attendance/Number of Meetings |
|--|-------------------------------|
| Non-executive Directors                  |                               |
| Zhang Hongwei                            | 4/5                           |
| Wang Yugui                               | 5/5                           |
| Wang Hang                                | 5/5                           |
| Executive Director                       |                               |
| Hong Qi                                  | 5/5                           |
| Independent Non-executive Directors      |                               |
| Liang Jinqun (Chairman of the Committee) | 5/5                           |
| Andrew Wong                              | 5/5                           |
| Qin Rongsheng                            | 5/5                           |
| Wang Lihua                               | 5/5                           |
| Han Jianmin                              | 5/5                           |

## 2. Nomination procedures and process adopted by the Nomination Committee

### (1) Nomination procedures for Director candidates

#### (i) General procedures for the nomination of Director candidates

Method of election of the Company's Directors: after soliciting the opinions of the shareholders, the former Board of Directors will, in accordance with the relevant provisions of the Company's Articles of Association, submit a written proposal at the shareholders' general meeting containing the biographies and basic information of the candidates. The Nomination Committee of the Board of Directors is responsible for soliciting the opinions of shareholders, collecting the nomination proposals and examining the qualifications of the candidate to determine whether they comply with the qualification requirements for a director of a commercial bank under the Company Law, Commercial Banks Law and relevant laws, administrative regulations and departmental rules. After the review, the Nomination Committee will submit the proposal to the Board of Directors for their deliberation, after which the Board of Directors will submit a proposal at shareholders' general meeting for voting. Nominator shall obtain consent from nominee prior to the nomination. If a shareholder or the Supervisory Board raises an objection to the list of Director candidates, he or it may submit a new proposal in accordance with the Articles of Association of the Company, pursuant to which the Nomination Committee shall examine the qualification of relevant candidates and submit the proposal to the Board of Directors for their determination as to whether the proposal should be further submitted at the shareholders' general meeting.

#### (ii) Special procedures for nomination of Independent Non-executive Director candidates

In accordance with the provisions of relevant laws, regulations and the Articles of Association of the Company, shareholders individually or jointly holding 1% or more of the issued shares of the Company, the Board of Directors or the Supervisory Board may nominate Independent Non-executive Director candidates for appointment via election by the shareholders' general meeting. Nominator shall obtain consent from nominee prior to the nomination. The nominator shall be fully aware of the occupation, education background, title, detailed work experiences and all part-time positions held by the nominee, and shall provide an opinion on the qualification and independence of the respective nominee to

assume the position of Independent Non-executive Director. The nominee shall give a public declaration indicating that there is no relationship between him and the Company which would affect his independent judgment. A nominee shall possess the requisite qualification and independence under the Articles of Association of the Company. Before any shareholders' general meeting for the election of the Independent Non-executive Director is held, the Board of Directors shall disclose the above mentioned information in accordance with relevant requirements.

Prior to the date of the shareholders' general meeting at which the Independent Non-executive Directors will be elected, the Company shall submit relevant materials in connection with all of its nominees for Independent Non-executive Directors to the CSRC, the local office of the CSRC where the Company is located, the stock exchanges at which the shares of the Company are listed, and the CBRC. Where the Board of Directors raises any objection in respect of any nominee, its written opinion shall also be submitted to the above authorities. Where the CSRC raises any objection in respect of any nominee, such nominee may not serve as a candidate for Independent Non-executive Director, but he may serve as a Director candidate. During the shareholders' general meeting to elect the Independent Non-executive Director, the Board of Directors shall provide a statement on whether the CSRC raised any objection to any candidate.

## **(2) Criterion and standard of selection and recommendation of Director candidates**

Directors shall possess expertise and experiences to perform his/her duties as well as qualify the requirements of CSRC. Such qualification shall be reviewed by CSRC.

Independent Non-executive Director shall possess the following basic requirements:

- (i) obtains qualifications to serve as directors of listed commercial banks in accordance with the laws, administrative regulations and other relevant provisions;
- (ii) obtains a bachelor degree or above or with relevant professional qualifications in middle level or above;
- (iii) fulfils the independence requirement specified in the Articles of Association;
- (iv) is equipped with a basic knowledge of the operation of listed commercial banks, and is familiar with relevant laws, administrative regulations, rules and regulations; and is able to read, understand and analyze commercial bank's credit statistics and financial statements;
- (v) has more than five years of legal, economic, commercial banking or other working experience necessary for performance of the duties of independent non-executive directors;
- (vi) obtains other qualifications to serve as directors specified in the Articles of Association of the Company; and
- (vii) meets the requirements of the Hong Kong Listing Rules regarding the qualifications of independent non-executive directors.

**(3) No candidate for Directors was nominated and the composition of the Board remained unchanged this year.**

### **3. Major achievements of the Nomination Committee in 2011**

In 2011, the Nomination Committee implemented the Working Plan of the Nomination Committee (提名委員會工作計劃) formulated at the beginning of the year by duly performing the duties under the Terms of Reference of the Nomination Committee under the Board (董事會提名委員會工作細則) and fully performing its professional role which facilitated a stable and healthy growth of the Company.

- (1) In 2011, the Nomination Committee of the Board convened 5 meetings in total, considered 15 proposals and duly performed the duties of the Nomination Committee.
- (2) In 2011, the Nomination Committee continued to perform its role to make decisions in the process of appointing key management and further develop a more standardized, transparent and scientific procedure of approval for nomination. In 2011, the Nomination Committee considered and examined in total 34 candidates of the presidents and vice presidents of branches, representing an increase of 42% as compared to last year and in total 95 candidates of senior management of affiliated entities, representing an increase of 73% as compared to last year. The total number of considered and examined candidates of senior management of branches and affiliated entities was 129, representing an increase of 60% as compared to last year. The Nomination Committee examined the qualifications of senior management in an effective and timely manner, which secured a stable operation of the Company.
- (3) In accordance with the Provisional Measures on Performance Appraisal of Senior Management of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司高級管理人員盡職考評試行辦法), upon the commencement of this performance appraisal, some members of the Nomination Committee have actively participated in the onsite assessment of the senior management, listened to them reporting their duties and provided comments or suggestions on the Comprehensive Report on the Performance Appraisal of Senior Management (高管人員盡職考評綜合報告) of the head office.

### **(III) Compensation and Remuneration Committee**

#### **1. Composition of the Compensation and Remuneration Committee and meetings in 2011**

The Compensation and Remuneration Committee of the 5th session of the Board has 9 members. The Chairman is Andrew Wong and the members are Lu Zhiqiang, Wang Hang, Chen Jian, Liang Jinquan, Qin Rongsheng, Wang Lihua, Han Jianmin and Liang Yutang. The Compensation and Remuneration Committee convened 5 meetings and reviewed 10 proposals in 2011.

The attendance record is as follows:

| Members                                 | Attendance/Number of Meetings |
|---|-------------------------------|
| Non-executive Directors                 |                               |
| Lu Zhiqiang                             | 5/5                           |
| Chen Jian                               | 5/5                           |
| Wang Hang                               | 5/5                           |
| Executive Director                      |                               |
| Liang Yutang                            | 5/5                           |
| Independent Non-executive Directors     |                               |
| Andrew Wong (Chairman of the Committee) | 5/5                           |
| Liang Jinqun                            | 5/5                           |
| Qin Rongsheng                           | 5/5                           |
| Wang Lihua                              | 5/5                           |
| Han Jianmin                             | 5/5                           |

## 2. Major achievements of the Compensation and Remuneration Committee in 2011

In 2011, the Compensation and Remuneration Committee of the Board performed duties as stipulated in the Terms of Reference of the Compensation and Remuneration Committee under the Board (董事會薪酬與考核委員會工作細則) in accordance with the strategies of remuneration management of the Board. The Committee determined benchmarks of key performance indicators (KPI) for Senior Management, reviewed annual remuneration of Directors and Senior Management, conducted evaluation of performance of Senior Management, provided reasonable suggestions on raising remuneration competitiveness of the Company through on-site investigations, and pushed forward the improvement of corporate governance of the Company.

### (1) Determination of benchmarks of key performance indicators (KPI) for Senior Management in 2011

In accordance with the Management Rules on Remuneration of Senior Management (高級管理人員薪酬管理制度), the performance remuneration of the Senior Management is pegged to their KPIs. With reference to the 2011 Financial Budget Report (2011年度財務預算報告), the Compensation and Remuneration Committee set the benchmarks of KPIs in 2011, which provided a rational and effective basis for the year-end performance evaluation and remuneration distribution for Senior Management.

### (2) Determination of annual remunerations of Directors and Senior Management

In compliance with the Rules on Remuneration of Directors and Supervisors (董事、監事薪酬制度), and based on the evaluation on the performances of the Directors, the Committee determined Directors' annual remunerations for 2010.

In compliance with the Management Rules on Remunerations of Senior Management (高級管理人員薪酬管理制度) and the Management Measures of Venture Fund for Senior Management (高級管理人員風險基金管理辦法) and on the

basis of the 2010 business operation indicators, the Committee evaluated the performances of the Senior Management appointed by the Board and determined their annual performance-based remunerations for 2010. Moreover, the Compensation and Remuneration Committee reviewed the remunerations of Directors and Senior Management disclosed in the 2011 Annual Report and considered that the remuneration was in compliance with the relevant remuneration policy of the Company.

### **(3) Commencement and completion of the first assessment on annual performance of the Directors**

During the year, in order to enhance the effectiveness of corporate governance and facilitate the due diligence of the Directors, the Compensation and Remuneration Committee of the Board conducted a performance evaluation on all of the Directors in 2010 and issued its relevant evaluation report according to Provisional Measures on Performance Supervision and Appraisal of Directors of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司董事履職評價試行辦法). All of the 18 Directors including the Shareholder Directors, Independent Directors and Executive Directors were being evaluated. The Report on Directors Performance Supervision and Appraisal of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司董事會2010年度董事履職評價報告) was issued after objective appraisal and self-assessment on the performance of the Directors in 2010.

### **(4) Annual performance evaluation on Senior Management**

In 2011, the Committee assessed the performance of Senior Management of the head office and presidents of the branch offices in 2010 in accordance with the Provisional Measures on Performance Appraisal of Senior Management of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司高級管理人員盡職考評試行辦法) and prepared a comprehensive assessment report. The Committee also commenced the assessment of the performance of Senior Management in 2011.

The performance evaluation allowed the Board to fully grasp the performance of Senior Management, which represented the Board's management over Senior Management appointed and approved to be appointed by it.

### **(5) Recommendation to improve the competitiveness of remuneration**

In order to carry out the strategic guiding function of remuneration resources, the Committee formed a survey group, conducted a 3-month onsite investigation on 15 branches and SBUs and formulated the Investigation Report on Remuneration Competitiveness of the Compensation and Remuneration Committee of the Board (董事會薪酬與考核委員會薪酬競爭力調研報告). The report comprehensively analyzed and summarized the current competitiveness of remuneration and proposed directions for adjustment of remuneration structure and measures to improve the competitiveness of remuneration. During the year, the Committee further communicated and assessed the report with the management and relevant departments, which functioned as guidelines for the future adjustment and improvement of the Bank's remuneration strategies and management level.

## **(IV) Risk Management Committee**

### **1. Composition of the Risk Management Committee and meetings in 2011**

The 5th session of the Risk Management Committee comprised of 5 members. The Chairman of the Committee is Wang Songqi, and the members of the Committee are Wang Yugui, Wang Hang, Andrew Wong and Liang Yutang.



Major duties of the Risk Management Committee include formulating suggestions on industry risk management and a risk indicator system based on the study of macroeconomic policies of China and market analysis as well as providing effective measures in accordance with the regulations, policies and requirements of the regulatory authorities, providing recommendations on decision-making for refining the structure, procedures and solutions of risk management based on the development strategy and risk management system of the Company, reviewing the risk monitoring indicator system and the report on risk management information analysis, supervising the Management of our business operations to adopt requisite identification, measurement, monitoring and control on operating risks, evaluating the precaution and control measures and contingency plans for significant risks in the course of business operation, organizing risk evaluation of major works, preparing risk prevention plan and other duties conferred by the Board to the Committee.

The Risk Management Committee convened 19 meetings and reviewed 34 proposals in 2011.

The attendance of the meetings is as follows:

| Members                                 | Attendance/Number of Meetings |
|---|-------------------------------|
| Non-executive Directors                 |                               |
| Wang Yugui                              | 19/19                         |
| Wang Hang                               | 19/19                         |
| Executive Director                      |                               |
| Liang Yutang                            | 19/19                         |
| Independent Non-executive Directors     |                               |
| Wang Songqi (Chairman of the Committee) | 19/19                         |
| Andrew Wong                             | 19/19                         |

## 2. Major achievements of the Risk Management Committee in 2011

In 2011, the Risk Management Committee considered and approved proposals such as Risk Control Guidelines of the Board in 2011 (董事會2011年度風險指導意見), Risk Assessment Report of the Board (董事會風險評價報告), Administrative Measures on Liquidity Risk of China Minsheng Banking Corp., Ltd.(2011 version) (中國民生銀行股份有限公司流動性風險管理辦法 (2011年版)), Administrative Measures of Approving Business Beyond Risk Limits by the Board (董事會超風險限額審批管理辦法) (Revised), Indicators of Liquidity Risk Control of China Minsheng Banking Corp., Ltd. in 2011 (中國民生銀行股份有限公司2011年流動性風險控制指標), the Report on IT Risk Management of China Minsheng Banking Corp., Ltd. in 2010 (中國民生銀行2010年資訊科技風險管理報告), 2011-2013 Strategic Planning and Development Goals of Wealth Management (理財業務2011-2013年戰略規劃和發展目標) and Implementation Plan for New Basel II Accord of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司新資本協議實施規劃). The Committee also reviewed and approved 132 businesses beyond risk limits proposed by the Board. In addition, the Committee conducted quarterly research on risk management, studied risk management reports and considered and approved proposals, such as Risk Management Report in 2010 (2010年風險管理工作報告), Risk Management Report in the First Half of 2011 (2011年上半年風險管理工作報告) and Risk Management Report in the Third Quarter of 2011 (2011

年第3季度風險管理報告). The Committee also considered and studied the Report on Risk Limit of Mid-to-long Term Loans in 2011 (2011年中長期貸款風險限額情況報告), Report on Risk Management of Small and Micro Enterprises (小微業務風險管理工作匯報), Report on Risk Management of Property Related Business (房地產相關業務風險管理工作匯報) and IT Governance Report of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司資訊科技治理報告).

## (V) Audit Committee

The Audit Committee of the 5th session of the Board comprised of 6 members, in which 4 are Independent Non-executive Directors and 2 are Shareholder Directors. The Chairman of the Committee is Qin Rongsheng, and the members are Wong Hei, Shi Yuzhu, Andrew Wong, Wang Songqi and Han Jianmin.

The Audit Committee of the Board convened 10 meetings and reviewed 21 proposals in 2011.

The attendance record is as follows:

| Members                                    | Attendance/Number of Meetings |
|--|-------------------------------|
| Non-executive Directors                    |                               |
| Shi Yuzhu                                  | 10/10                         |
| Wong Hei                                   | 10/10                         |
| Independent Non-executive Directors        |                               |
| Wang Songqi                                | 9/10                          |
| Andrew Wong                                | 10/10                         |
| Qing Rongsheng (Chairman of the Committee) | 10/10                         |
| Han Jianmin                                | 10/10                         |

In 2011, based on the requirements of regulatory authorities, the strategic management of the Board and the annual working plan of the Board, the Audit Committee performed its duties in an independent, objective and prudent manner to coordinate the healthy development of its internal and external auditing, and ensure an authentic, accurate and complete report of the financial information. The internal control and management system. The major achievements of Audit Committee in 2011 were as follows:

### 1. Organization and supervision of the implementation of the Basic Standard for Corporate Internal Control

Based on the unified requirement of CSRC, as a listed company in both Hong Kong and PRC, the Company took the lead to implement the Basic Standard for Corporate Internal Control (企業內部控制基本規範). According to the requirements of regulatory authorities and the unified arrangements of the Board, the Audit Committee organized and supervised the Company's implementation of the Standard.

### 2. Organization and management of the audit of annual financial statements

Based on the requirement of CSRC on disclosure of annual reports of listed companies and the procedures specified in the Involvement of Independent Non-executive Directors in the Preparation of Annual Report (獨立董事年報

工作制度) and the Rules of Procedure on Preparation of Annual Financial Statements of Audit Committee (審計委員會年報工作規程), the Audit Committee coordinated and organized the audit of 2011 financial statements in a rational manner.

### **3. Review of regular financial statements of the Company**

Based on the regular plan of disclosure of financial statements of the Company, the Audit Committee reviewed the 2011 final accounts, 2012 financial budget, quarterly reports, interim report and annual report of the Company. The Committee also supervised the financial operation of the Company to ensure the truthfulness, accuracy and completeness of its financial information.

### **4. Supervision on major asset disposals of the Company**

The Audit Committee supervised the write-off of doubtful debts of the Company in a prudent manner. During the year, the Audit Committee conducted an audit of four major disposals of non-performing assets and safeguarded the Company's assets.

### **5. Research on internal control, and supervision and guidance of the establishment of internal control system**

During the year, the Audit Committee commenced the evaluation and research of internal control of branches in Shanghai, Hangzhou, Wuhan and Changsha, provided on-site supervision and guidance in order to improve the management level and promote advanced culture of internal control.

### **6. Organization of evaluation and engagement of external auditors for annual audit**

During the year, the Audit Committee performed a comprehensive evaluation on the annual audit works carried out by the accounting firms which prepared the financial statements of the previous year and carried out a tendering to engage the auditors for 2011.

### **7. Organization of specific researches**

During the year, the Audit Committee conducted specific researches on loans to real property and government financing platform, and prepared specific reports which provided material reference to the Board for evaluating the overall quality of the relevant loans.

## **(VI) Related Party Transactions Supervision Committee**

The 5th Related Party Transactions Supervision Committee of the Board comprised 8 members, including 4 Independent Non-executive Directors, 3 Shareholder Directors and 1 Executive Director. The Chairman of the Committee is Qin Rongsheng, and other members include Wong Hei, Shi Yuzhu, Wang Junhui, Liang Jinqun, Wang Lihua, Han Jianmin and Liang Yutang.

In 2011, 9 meetings were convened and 13 proposals were reviewed by the Related Party Transactions Supervision Committee.

The attendance record is as follows:

| Member                                    | Attendance/Number of Meetings |
|---|-------------------------------|
| Non-executive Directors                   |                               |
| Wong Hei                                  | 9/9                           |
| Shi Yuzhu                                 | 8/9                           |
| Wang Junhui                               | 9/9                           |
| Executive Director                        |                               |
| Liang Yutang                              | 9/9                           |
| Independent Non-executive Directors       |                               |
| Qin Rongsheng (Chairman of the Committee) | 9/9                           |
| Liang Jinquan                             | 9/9                           |
| Wang Lihua                                | 9/9                           |
| Han Jianmin                               | 9/9                           |

In 2011, the Related Party Transactions Supervision Committee adhered to maintain “open and transparent” management of connected transactions as required by the Board, and duly performed its supervisory and management duties, strengthened the implementation of its management policies and innovated supervisory measures to improve the management of connected transactions by focusing on compliance development and efficiency improvement. Major achievements of the Related Party Transactions Supervision Committee in 2011 were:

### 1. Supervision on the establishment of related party information database

During the year, the Related Party Transactions Supervision Committee strengthened the information collection, identification and determination system of related parties and connected transactions by exploring effective ways for information collection, simplifying the reporting procedures for related party information and clarifying the reporting responsibility of related parties. The Committee also updated data base of related parties to ensure the compliance of the relevant transactions.

### 2. Approval of related party items on a strict basis

The Committee reviewed credit lines to related parties in strict compliance with the approval procedures and the Terms of Reference of the Related Party Transactions Supervision Committee (關聯交易控制委員會工作細則). In 2011, the Committee held 9 meetings and reviewed 13 related-party proposals.

### 3. Investigation on implementation of management policies of related party transactions

In order to strengthen implementation of management policies and evaluate their effectiveness, the Related Party Transactions Supervision Committee visited the Credit Assessment Department and branches during the year to understand the examination, approval and follow up procedures of their connected transactions. The management function of connected transactions of the Related Party Supervision Committee was further expanded to the whole process of connected transactions, which helped to enhance the transparency and review efficiency of connected transactions.

#### 4. Supervision on daily related party transactions

The Related Party Transactions Supervision Committee analyzed and evaluated daily operations and changes of connected transactions of the Company through monitoring monthly information to ensure the compliance of connected transactions.

## V. The Supervisory Board

The Supervisory Board is the supervisory organization of the Company, which executes its powers and functions in accordance with the laws and regulations, such as the Company Law, applicable regulatory provisions and the Articles of Associations to promote the lawful operations and stable development of the Company and safeguard interests of the Company and investors. The Supervisory Board shall be accountable to the shareholders' general meetings.

### (I) Composition of the Supervisory Board

As at the end of the reporting period, the Supervisory Board of the Company comprised of 8 members, including 3 Shareholder Supervisors, 2 External Supervisors and 3 Employee Supervisors. The 2 External Supervisors are experts in finance and management; the 3 Shareholder Supervisors are major persons in charge in renowned companies in the PRC with extensive management experience and professional knowledge in finance; and the 3 Employee Supervisors have been engaged in management in banks for a long period of time, possessing extensive experiences.

The Supervisory Board is well structured. The Supervisors are independent and professional, which enables the Supervisory Board to fully perform its supervisory functions.

The list of Supervisors and their profiles are set out in Chapter 5 of this report. The members of the Supervisory Board are not related (in terms of finance, business, family or other material relations or relevant relations).

### (II) The functions and duties of the Supervisory Board

According to the Articles of Association, the Supervisory Board of the Company shall exercise the following powers:

1. to review the regular reports of the Company drafted by the Board and opine on the reports in writing;
2. to examine and supervise financial activities of the Company, and may (if necessary) engage another accounting firm to conduct independent auditing on financial status in the name of the Company;
3. to oversee the compliance of Directors, President, Vice Presidents, CFO and Board Secretary of the Company in performing their duties;
4. to demand any Director, President, Vice Presidents, CFO and Board Secretary of the Company rectify his/her conduct when such conduct is detrimental to the interests of the Company, and report such conduct to shareholders' general meetings or relevant regulatory authorities of China if necessary; and to make proposals to remove any Directors and Senior Management if they breach any applicable laws, administrative regulations, the Articles of Association or resolutions of shareholders' general meetings;
5. to conduct audit over the issues in connection with the operation and decision making, risk management and internal control of the Company as and when necessary;

6. to make a departure audit, if required, in respect of any resigning director or member of Senior Management;
7. to issue opinions on the engagement of an accounting firm by the Company;
8. to propose to convene extraordinary shareholders' general meetings, and, if the Board fails to convene or chair such a meeting as required under the Company Law, to convene or chair the shareholders' general meetings;
9. to propose to convene an extraordinary board meeting and submit proposals to the shareholders' general meeting;
10. to sue against Directors and Senior Management according to Article 152 of the Company Law;
11. to investigate any irregularities in the operations of the Company if necessary, and may engage accounting firms, law firms or other professional firms to assist its work at the costs of the Company; and
12. to exercise other powers prescribed by the Articles of Association or conferred by the shareholders' general meeting.

Members of the Supervisory Board may be present at meetings of the Board and are entitled to voice their opinions at the meetings.

### (III) The Supervisory Board meetings and contents of resolutions

During the reporting period, 6 meetings have been held by the Supervisory Board of the Company, the details and contents of the meetings are as follows:

| Meeting  | Date            | Publication  | Date of Disclosure |
|--|-----------------|--|--------------------|
| The 11th Meeting of the 5th session of the Supervisory Board | 8 March 2011    | (Exempted from disclosure pursuant to relevant regulations)                              |                    |
| The 12th Meeting of the 5th session of the Supervisory Board | 25 March 2011   | Shanghai Securities News, China Securities Journal, Securities Times and Financial Times | 26 March 2011      |
| The 13th Meeting of the 5th session of the Supervisory Board | 27 April 2011   | (Exempted from disclosure pursuant to relevant regulations)                              |                    |
| The 14th Meeting of the 5th session of the Supervisory Board | 8 July 2011     | Shanghai Securities News, China Securities Journal, Securities Times and Financial Times | 9 July 2011        |
| The 15th Meeting of the 5th session of the Supervisory Board | 16 August 2011  | (Exempted from disclosure pursuant to relevant regulations)                              |                    |
| The 16th Meeting of the 5th session of the Supervisory Board | 27 October 2011 | (Exempted from disclosure pursuant to relevant regulations)                              |                    |

The Supervisory Board of the Company considered and approved 13 proposals of the Company including the 2010 Annual Report, Quarterly Reports and Interim Report of 2011 and 2010 Working Report of the Supervisory Board, Performance Assessment Report of Directors and Senior Management in 2010 by the Supervisory Board at the above meetings.

#### (IV) The attendance record of each Supervisor in 2011:

| Supervisor    | Attendance/Number of meetings |
|---------------|-------------------------------|
| Qiao Zhimin   | 6/6                           |
| Xing Jijun    | 6/6                           |
| Lu Zhongnan   | 6/6                           |
| Zhang Disheng | 6/6                           |
| Xu Rui        | 6/6                           |
| Wang Liang    | 6/6                           |
| Chen Jinzhong | 6/6                           |
| Wang Lei      | 6/6                           |

## VI. Special Committees under the Supervisory Board

The Supervisory Board of the Company comprises of Nomination and Remuneration Committee and Supervisory Committee. Members, powers and functions of such committees and their works in 2011 are as follows:

#### (I) Nomination and Remuneration Committee

In accordance with the Resolution on the Composition of the Special Committees of the 5th Session of the Supervisory Board (關於公司第五屆監事會專門委員會組成成員的決議) considered and approved by the 1st Meeting of the 5th session of the Supervisory Board on 23 March 2009, the 5th session of the Nomination and Remuneration Committee of the Supervisory Board comprised of 6 members. The convener of the Committee is Xu Rui, and the members include Qiao Zhimin, Xing Jijun, Wang Liang, Lu Zhongnan and Zhang Disheng.

The major duties of the Nomination and Remuneration Committee under the Supervisory Board include: making recommendations to the Supervisory Board on the size and composition of the Supervisory Board; reviewing standards and procedures for election of Supervisors and making recommendations to the Supervisory Board; identifying qualified candidates of Supervisors; carrying out preliminary examination on qualification of the candidates of Supervisors nominated by shareholders and making recommendations; studying and formulating remuneration policy and budget of Supervisors and submitting reports to the shareholders' general meeting for approval after the same being considered and approved by the Supervisory Board; and performing other duties conferred by the Supervisory Board.

In 2011, the Nomination and Remuneration Committee under the 5th session of Supervisory Board convened 3 meetings and reviewed 4 proposals. The attendance record of each member is as follows:

| Member        | Attendance/Number of Meetings |
|---------------|-------------------------------|
| Xu Rui        | 3/3                           |
| Qiao Zhimin   | 3/3                           |
| Xing Jijun    | 3/3                           |
| Wang Liang    | 3/3                           |
| Lu Zhongnan   | 3/3                           |
| Zhang Disheng | 2/3                           |

In 2011, based on the work plan of the Supervisory Board, the Nomination and Remuneration Committee under the 5th session of the Supervisory Board actively performed its duties and functions conferred by the Articles of Association and Terms of Reference of Nomination and Remuneration Committee under the Supervisory Board of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司監事會提名與薪酬委員會工作細則), carried out the performance appraisal of Supervisors, reviewed and approved the remuneration distribution plan for the Supervisors and Performance Appraisal Report of Supervisors in 2010 (Draft) (2010年度監事履職評價報告 (草案)), and organized and arranged trainings for Supervisors. All tasks in 2011 were completed and the functions of the Committee were performed in a more effective way. The major achievements of the Nomination and Remuneration Committee in 2011 were as follows:

## 1. Performance appraisal and evaluation of Supervisors

During the reporting period, pursuant to provisions of the Provisional Measures on Performance Appraisal of Supervisors of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司監事履職評價試行辦法), the Committee considered and approved the Performance Appraisal Report of Supervisors in 2010 (2010年度監事履職評價報告) and submitted to shareholders' general meeting after the consideration of Supervisory Board. During the year, the Committee further regulated and refined the methods and procedures of supervision and assessment, compiled records of Supervisor's performance, and consistently monitored the Supervisors' attendance of various meetings and their performance within Supervisory Board.

Based on results of the above records, self-assessment and cross-assessment of all Supervisors, the Committee formulated the Performance Appraisal Report of Supervisors in 2011 (Draft) (2011年度監事履職評價報告 (草案)). According to the assessment results, all Supervisors were able to perform their duties with due diligence in 2011, with one of whom reaching the level of "excellent", two "satisfactory" and the remaining "competent".

## 2. Review of remuneration distribution policies of Supervisors

According to the Articles of Association, the Nomination and Remuneration Committee under the Supervisory Board is responsible for reviewing and formulating the remuneration policy and budget of Supervisors. During the reporting



period, the Committee reviewed the distribution of remunerations to the Supervisors in 2010 based on fundamental researches, and the result was submitted to the Supervisory Board for review together with the 2010 Annual Report and disclosed to the public accordingly.

### 3. Trainings for Supervisors

During the reporting period, the Committee arranged all Supervisors to participate in the training courses for directors and supervisors sponsored by Beijing Municipal Bureau of the CSRC, in which they all passed the examinations. The attendance rate of Supervisors was 100%. The Committee also invited the regulatory authorities and relevant experts to hold special trainings for Supervisors on aspects closely related to the New Basel II Accord, future changes of regulatory policies and analysis of listed companies operation. Furthermore, the Committee arranged Supervisors to participate in training activities organized by social training organizations in order to expand and enhance the professional knowledge and skills of Supervisors.

#### (II) Supervisory Committee

In accordance with the Resolution on the Composition of Special Committees of the 5th Session of the Supervisory Board (關於公司第五屆監事會專門委員會組成成員的決議) considered and approved by the 1st meeting of the 5th session of the Supervisory Board on 23 March 2009, the Supervisory Committee under the 5th session of the Supervisory Board of the Company comprised 7 members. The convener of the Committee is Qiao Zhimin, and the members include Xing Jijun, Lu Zhongnan, Xu Rui, Wang Liang, Chen Jinzhong and Wang Lei.

The major duties of the Supervisory Committee under the Supervisory Board include: formulating proposals on the examination and supervision on the financial activities of the Company; formulating proposals on the departure audit of any resigning Director or Senior Management; formulating proposals on the examination and supervision on the operational decisions, risk management and internal control of the Company; and performing other duties conferred by the Supervisory Board.

In 2011, the Supervisory Committee under the 5th session of the Supervisory Board convened 10 meetings and reviewed 15 proposals. The attendance record of each members is as follows:

| Member        | Attendance/Number of Meetings |
|---------------|-------------------------------|
| Qiao Zhimin   | 10/10                         |
| Xing Jijun    | 10/10                         |
| Xu Rui        | 10/10                         |
| Wang Liang    | 10/10                         |
| Lu Zhongnan   | 9/10                          |
| Chen Jinzhong | 10/10                         |
| Wang Lei      | 10/10                         |

In 2011, based on the work plan of the Supervisory Board, the Supervisory Committee under the 5th session of the Supervisory Board actively performed the duties and functions conferred by the Articles of Association and Terms of Reference of Supervisory Committee under the Supervisory Board (監事會監督委員會工作細則). The Supervisory Committee carried out special examinations, supervision on due diligence, inspection visits, which facilitated the supervision work of the Supervisory Board. The major achievements of Supervisory Committee under the Supervisory Board in 2011 were as follows:

## **1. Conducting special investigations and audits**

During the reporting period, the Committee identified the focus of work, formulated specific plans, organized and conducted two special examinations of credit granting to corporate group customers and bills business and an audit on final accounts of redevelopment and expansion engineering project of China Minsheng Bank Tower (Shanghai) based on the actual needs of the Company and risk recommendations from the regulatory authorities. In particular, a special investigation on credit granting to corporate group customers was conducted, which sampled 104 corporate customers with a total amount of RMB158,076 million. The special investigation on bills business involved most of the business units of the Company and on-site investigations were conducted in 5 branches. The audit on final accounts of redevelopment and expansion project of China Minsheng Banking Corporation Tower (Shanghai) mainly concerned the investment from Jian'an and final accounts upon the completion of the construction. After review and approval of the Committee, the above inspection or audit reports were submitted to the Board and Senior Management. For problems founded during inspections and audit, the Board and Senior Management placed important emphasis and ordered relevant departments to make appropriate rectification. All relevant departments have submitted rectification reports to the Supervisory Board.

## **2. Strengthening supervision on financial position and internal control**

The Committee strengthened supervision on major aspects such as financial position and internal control of the Company in accordance with regulatory requirements during the reporting period. Firstly, supervision on authentic, accurate and complete financial reporting was enhanced by regular reporting from audit firms, attending relevant Board meetings and reviewing financial reports of the Company. Secondly, the Committee continued to pay attention and study important components of financial management such as financial reports, operation efficacy and integrated operation plan of the Bank, and provided recommendations to the Board and Senior Management when appropriate. Thirdly, it has kept update of new requirements of regulatory authorities on internal control and risk management of banks, carried out supervision on internal control by the Board and Senior Management and progress on internal control system assessment of the Board, and provided opinions. Fourthly, the Committee focused on the implementation of internal control and risk management of the Bank as well as the research and analysis of new circumstances arising out of business transformation, particularly liquidity risk management, property loan risk and government financing platform risk, which helped to enhance legal awareness of functional managing departments and further regulate operations.

### **3. Launching inspection visits and providing recommendations on the management**

During the reporting period, the Committee identified the focus of investigation in line with the development of the Company and organized members of Supervisory Board to pay inspection visits to eight branches and two Minsheng township banks. The Supervisory Committee made 20 operational management recommendations to the Board and management based on the problems in business management and operational development of the branches identified in the course of inspection as well as opinions and recommendations of frontline staff. Such opinions and recommendations attracted great emphasis of the Board and the Senior Management, and the problems and opinions in the Supervisory Board report were investigated and implemented by relevant departments and organizations with great emphasis.

### **4. Further improving the performance supervision and assessment of the Board, Senior Management and their members**

During the reporting period, the Committee carried on the performance supervision and assessment of the Board, Senior Management and their members. Firstly, the Committee formulated and modified the working system of performance supervision of the Supervisory Board in line with its working experience according to new regulations on performance supervision of Directors promulgated by regulatory authorities, so as to improve and optimize the methods and procedures for performance supervision and enhance the effectiveness and efficiency of performance supervision. Secondly, the Committee supplemented the supervision records of Directors and Senior Management by attending relevant meetings, organizing review on minutes of the Board and management, compiling statistics for performance supervision of Directors, grasping and supervising performance of Directors and Senior Management, grasped the operational management of the Company by continuous supervision, organizing special inspection, research and survey. During the year, the Supervisory Board carried out an interim supervision review on the performance of the Directors and provided their recommendations in this respect. At the end of the year, the Supervisory Board conducted the annual self-assessment, cross-assessment and examination on the due diligence of the Directors and Senior Management combined with regular supervision results, formulated the Report on Performance Appraisal of Board of Directors and Directors of 2011 by the Supervisory Board (監事會對董事會及董事2011年度履職監督評價報告) and the Report on Performance Appraisal of Senior Management and its Members of 2011 by the Supervisory Board (監事會對高級管理層及其成員2011年度履職監督評價報告).

## **VII. The Decision-Making System of the Company**

The highest authority of the Company is the Shareholders' General Meeting, which manages and supervises the operations of the Company through the Board of Directors and the Supervisory Board. The President is appointed by the Board of Directors and is fully responsible for the daily operations and management of the Company. The Company adopts a single-level legal person system. Branches are all non-independent accounting entities, operating under the authorization of the Head Office and report to the Head Office.

The Company has no controlling shareholders and is totally independent from its major shareholders in terms of business, personnel, assets, organizations and finance. The Company maintains independence and integrity in managing its own business and operations, and its Board of Directors, the Supervisory Board and internal department also operate independently.

## VIII. Performance Evaluation and Incentive Mechanism for Senior Management

In accordance with the Management Rules on Remuneration of Senior Management (高級管理人員薪酬管理制度), the performance remuneration of the Senior Management is pegged to their KPIs. With reference to the 2011 Financial Budget Report (2011年度財務預算報告), the Compensation and Remuneration Committee of the Board set the benchmarks of the KPIs for 2011 and the Board determined the performance remuneration of Senior Management for 2011 based on their six KPI results, including the net profit and the risk-adjusted return on capital ratio. In accordance with the regulatory requirements, the Company has set up venture funds for Senior Management since 2009, which is accrued by a certain proportion of Senior Management's annual performance bonus.

### (I) Remuneration policy for Senior Management of the Company

The remuneration policy for Senior Management of the Company is implemented to facilitate the accomplishment of development strategies and business objectives and reflects the principles of human resources management strategy and guidelines of the Company. The Company evaluated performance on the basis of the operating results of Senior Management so as to encourage Senior Management to develop together with the Company. The Company formulated a fair and consistent remuneration policy for Senior Management with reasonable structure and market competitiveness; set up incentive and binding mechanism for Senior Management with simple and clear classification and assessment procedures based on duties and performance evaluation; and determined remuneration of Senior Management according to their duties, capability and contribution to operating results.

### (II) Remuneration policy for Directors of the Company

The Company pays remuneration to all Directors in accordance with the Rules on Remuneration of Directors and Supervisors (2008 Revised Draft) (董事、監事薪酬制度 (2008年修訂草案)). The remuneration of Directors comprises of annual fee, allowance for special committees, reimbursement for attending meetings and reimbursement for investigation.

## IX. Appointment of Accounting Firm

According to the resolution passed at the annual general meeting, the Company engaged KPMG Huazhen and KPMG as the auditors of the Company responsible for financial statements audit and internal control audit in 2011.

According to the contract, the total remuneration agreed between the Company and the auditors for the audit services provided in the year (including 2011 annual financial statements audit, 2011 interim financial statements audit and 2011 internal control audit) amounted to RMB8 million. The total remuneration agreed between the subsidiaries of the Company and the auditors for the audit services provided in the year amounted to RMB1.175 million. The total remuneration agreed between the Company and the auditors for the non-audit professional services provided in the year amounted to RMB1.459 million.

## X. Internal Control and Internal Audit

### (I) Adequacy, effectiveness and completeness of internal control

#### 1. Organization structure of internal control system

The Company has established an independent internal control organization structure. The Shareholders' General Meeting, the Board of Directors, the Supervisory Board and the management team led by the Board perform their respective duties. The highest authority of the Company is the Shareholders' General Meeting. The Board of Directors is the decision-making body while the Supervisory Board is a supervisory unit of the Company. Six special committees are established under the Board of Directors as decision-making research units, which include Strategic Development and Investment Management Committee, Audit Committee, Risk Management Committee, Nomination Committee, Compensation and Remuneration Committee and Related Party Transactions Supervision Committee. The President and the management team are responsible for direction, coordination, management and supervision of the Company's daily operational activities according to decisions made by the Board of Directors.

The internal control management system works effectively under the comprehensive legal person governance structure of the Company. The Board of Directors is responsible for ensuring the integrity and smooth implementation of the internal control system. The Audit Committee under the Board of Directors supervises and directs the establishment of the internal control system through review of internal control reports, inspection of internal control of each unit and self-evaluation on a regular basis. Risk Management Committee under the Board of Directors supervises risk status of the management by formulating annual risk management guidance and carries out evaluation and investigation on risk reports regularly. Through the investigations and the research carried out by the Audit Committee and the Risk Management Committee, the Board of Directors grasps the general internal control condition, researches relevant issues concerning the decision-making and suggests constructive ideas to the management. The management of the Company seriously implements the instructions and work plans of the Board of Directors on internal control management to make comprehensive improvement on risk management. This includes improving the compliance with and authority of the internal control policies and procedures and improving the consistent implementation of internal control management, its involvement in processes and daily operations and its compliance with best practices. The Supervisory Board, as required under the Company Law of PRC, relevant regulatory provisions and the Articles of Association, supervises whether the performances of the Board of Directors, senior management and its members are in compliance with the laws and regulations and is accountable to the Shareholders' General Meeting, in order to ensure the compliance and promote sound development of the Company's operation. The Company has formed an effective and standard internal control and management system that incorporates education, early warning, prevention, and incentive and punitive

functions, where each department has clearly defined responsibility and cooperates with one another under mutual restriction and supervision.

## 2. Internal control system

In compliance with Commercial Bank Law of the PRC (中華人民共和國商業銀行法), Guidelines for Internal Control of Commercial Banks (商業銀行內部控制指引) and other laws and regulations and regulatory rules, and for the purpose of risk prevention and prudent business operation, the Company has reviewed and improved the internal control system and has gradually formed a set of rational and comprehensive internal control policies. It has also formulated a series of internal management rules and internal control mechanisms for risk prevention, control, subsequent supervision and rectification to ensure stringent and controllable risk exposure management.

The internal control system covers corporate governance policies cored on the Articles of Association of the Company and the rules of procedures of Shareholders' General Meeting, the Board of Directors and its special committees and the Supervisory Board. It also covers operational systems that involve business regulation such as loans to corporate clients, corporate deposits, loans to individuals, personal deposits, other personal business, treasury, wealth management, trade finance, e-banking, credit card, investment banking and asset custody. Management systems are also covered, including the regulations of accounting management, accounting and audit, financial management, IT, computer system risk control, corporate culture establishment, organization position setting and definition of terms of reference, employment, qualification, compulsory leave, authority management, seal management, physical security, rewards and penalty systems of units and employees, supervision and inspection. The system also covers information control systems, in particular, the Information Disclosure Management System (信息披露管理制度) and the Operation Information Internal Reporting System (經營信息內部報告制度). The existing policies have been embedded into current management departments, business departments, business processes and operating procedures and provide sound and effective protection against financial risks.

## 3. Major internal control measures

The Company strengthened its corporate governance structure and improved the regular communication between the three special committees of the Board and each special committee of the management and check and balance at decision-making process. It reinforced the authorization management of all businesses and adopted classified authorization and supervision mechanism that is in line with relevant rights and obligations. The Company improved internal control measures of all business processes and operation procedures by tightening business authorization, approval procedure and authority, and establishing internal control policies and procedures with rational labor division, clearly defined rights and obligations, check and balance and mutual supervision between different job position and organs. The Company standardized accounting settlement, made adequate financial resources allocation, and satisfied internal control requirements in terms of quality and structure of human resources in accordance with the new accounting standards so as to guarantee the truthfulness and integrity of the accounting information and the truthfulness, reliability and fairness of the financial statements. The Company set up and improved a financial budget management system, specifically defined the process control over the preparation, execution, usage and feedback

mechanism of the financial budget, which has played an proactive role in cost control, resources allocation efficiency and reasonable usage of resources. The Company made timely identification and regular evaluation on operational risks and internal control status to ensure the compliance of all business operation and management activities as well as safety and integrity of assets under the principles of comprehensiveness, effectiveness and adaptivity. The Company reinforced the implementation of internal control policy and procedures by linking the execution of internal control with business performance of its organs, adopting strict accountability standards against ineffective internal control while maintaining effective incentive measures to ensure internal control measures in place for all procedures including decision-making, implementation, supervision and feedback.

During the reporting period, the Company refined and improved its internal control system by taking the following measures: (i) the capability of overall risk management of the Company was enhanced by successfully implementing the New Basel II Accord. With a main purpose of establishing management systems for credit risk of the First Pillar of Basel III, market risk and operational risk, the implementation of the New Basel II Accord recorded significant progress. The Company made progress in stage in the introduction and promotion of management system for non-retail customer credit rating and limit system, debt rating system, limit management of transaction accounts market risk, valuation management system for financial instruments, market risk measurements, management framework of operational risks and the three major tools. It also further improved the risk management system in respects of comprehensive and timely identification, measurement, supervision and control of various risks; (ii) the Company proceeded with process-based banking construction and the optimization of the middle and back office operation system and continued to refine the governance mechanism and operation system. It introduced innovative management system and implemented advanced management tools, such as Balanced Scorecard, Voice of Customers and Six Sigma in order to coordinate the long-term development and short-term operation systemically as well as to understand customers' needs and optimize operating procedures so as to achieve scientific and refined management and significant improvement on service quality and efficiency; (iii) pursuant to the latest requirements set by five ministries including the Ministry of Finance, the Company started project construction according to the Basic Standard for Corporate Internal Control (企業內部控制基本規範), involving three main parts of establishment of internal control, self-assessment of internal control and internal control audit. It also comprehensively refined the business process and prepared the Internal Control Manual based on the risk matrix, combining the Standards for Compliance Risk Management and Administrative Measures on Appraisal to form the internal control system and the internal control self-assessment and evaluation mechanism in line with the actual situation of the Company and thus enhanced the establishment of a long-term internal control mechanism; (iv) the Company strictly implemented "Three Measures and One Guideline" in the credit risk management, and strengthened the management of credit to high-risk industries such as bill and real estate as well as companies of high pollution, high consumption and excessive production capacity; and (v) the Company strengthened the inspection on effectiveness of its internal control and risk management. Through specific examinations on business lines including credit, financial accounting and retail banking, and special activities including "Internal Control and Incident Prevention Year" campaign, the Company strengthened investigation on the implementation of the Thirteen Rules in Managing Operational Risk, inspection of key business areas and newly established units and rectification mechanism of risk management and internal control, and further improved the internal control level of the Company.

#### **4. Supervision and evaluation activities of internal control**

The internal audit department of the Company is responsible for supervision and regular evaluation on the establishment and implementation of internal control policies and procedures. It oversees and facilitates the revision and refinement of branches and business departments in response to changes in the laws and regulations of the country, the Company's organizational structure, business performance and market environment.

During the reporting period, the Audit Department of the Company continued the comprehensive evaluation on internal control of business units on the basis of dynamic amendment on evaluation standards. It completed internal control evaluation on main branches in Beijing, Shanghai, Guangzhou, Nanjing and Jinan and branches established less than three years in Changsha and Nanning. It also completed evaluating internal control of four branch offices of SBUs including metallurgy, energy, and trade finance as well as three credit card branch centers. In addition, it started comprehensive audits in second-tier branches in Handan, Tangshan, Weifang, Qinghuangdao, Hengshui, Xiangyang and Deyang, supervised the internal control and compliance management of newly launched business units so as to improve its standardized management and internal control systems. Through continuous evaluation on internal control, the Company achieved quantitative management of internal control of business units and enhanced the internal momentum of stable operation and sustainability of business units. These measures enhanced the effective application of evaluation results and the organic integration of internal audit evaluation with other risk management initiatives, and substantially improved the overall internal control level of the Bank.

#### **5. Culture of internal control**

The Company attaches high importance to create and cultivate an outstanding corporate culture which conforms to requirements of modern commercial bank and has its own characteristics. Having reviewed, concluded, standardized and improved the existing corporate culture, the Company unified all operational management areas, such as internal control, marketing, risk management, incentives and assessment under the mission, vision and core concept set by the corporate culture and brand building. The Company has come up with operation philosophy, code of conduct and positive image of its own. The Company also addresses the establishment of corporate sub-culture focusing on business development and risk management, which has gradually evolved into a corporate culture system that is consistent to the core value, and helps to introduce all employees to proper business performance values, and prudent risk and compliance awareness.

The internal control system of the Company covers all existing organizations, departments and job positions, and is embedded into all business processes and operating activities, which is consistent with its strategy of prioritizing internal control for business development. The system also demonstrates a high level of integrity, rationality and effectiveness in the process of improving internal control environment, increasing risk identification, monitoring and evaluation capability, enhancing risk control measures, completing information exchange and feedback mechanism, and strengthening supervision evaluation and rectification mechanism. It is able to provide rational guarantees to the implementation of national laws and regulations, banking rules and policies, fulfillment of strategic and business development objectives, stable and continuous growth of all lines of business, as well as timeliness, truthfulness and integrity of business records,



financial information and other management information. The Company will continuously enhance the integrity, rationality and effectiveness of its internal control in accordance with the changes of national laws and regulations, regulatory requirements and the deepening management and development of the Company.

## **6. Working plan and implementation plan for the establishment of a sound internal control system**

According to the new requirements of the Basic Standard for Corporate Internal Control (企業內部控制基本規範) and Application Guidelines for Corporate Internal Control (企業內部控制應用指引) issued by the five ministries, including the Ministry of Finance, the Company started the project construction of Basic Standard for Corporate Internal Control during the reporting period. It will, given taken into consideration the major factors such as internal situation, risk evaluation, control measures, information communication and internal supervision, formulate working plan and implementation plan for the establishment of internal control system, carry out thorough restructuring on the businesses procedures and management system of the Company and evaluate the situation of internal control scientifically with an aim to achieve improvements and maintain sustainable growth. Further, the Company will gradually continue the establishment and implementation of the long-term internal control, strengthen the enforcement of Standards for Compliance Risk Management in Internal Control Compliance, promote the implementation of the projects and actively explore management tools such as staff violation record, optimize internal control technology and continue the cultivation of internal control culture and constantly improve the internal control management system according to the actual situation of the Company which will apply to all management level and all operating activities of the Company, so as to enhance its operation management level and risk prevention capability, and ensure the effective implementation of development strategies of the Company.

### **(II) Internal audit**

The Company has an internal audit organization — Internal Audit Department. Under the leadership of the Audit Committee of the Board, the Company adopts an independent internal audit model with a vertical management structure topped by the head office. During the reporting period, the Internal Audit Department carried out structural adjustments and optimization, established a new audit center in Northeast China and abolished the assignment of auditors to branches. Currently, the Company has five regional audit centers in Northern China, Eastern China, Southern China, Mid-China and Northeast China. The Internal Audit Department set up the product business audit center, industry finance audit center, on-site audit center and off-site audit centers according to the specialized operating characteristics of the Company. Business management center, evaluation and accountability center and supervision and coordination center were also established. The Internal Audit Department is responsible for performing independent examination and evaluation on all business operations and management activities of the Company, monitoring and examining effectiveness of its internal control and carrying out evaluation and advisory activities for its internal control independently and objectively. To ensure the effectiveness and independence of the audit, material audit findings and internal control defects are directly reported to Senior Management and the Audit Committee of the Board. The Company has set

up a standardized internal audit system and an integrated audit examination system comprising on-site audit and off-site audit. Off-site audit system covers all assets and debt businesses. Risk-oriented audit on internal control covers all business lines and internal management procedures including corporate banking business, retail banking business, financial market, trade finance, credit card, financial accounting and risk management, etc. The Company has initially achieved full coverage of audit on risk exposures in credit, operation, market and compliance.

The Company performed supervision and examination on internal control of business units through on-site audits, off-site audits, special audits and departure audits, which included 89 on-site audits, 37 off-site special audits, and 161 departure audits during the reporting period. The Internal Audit Department issued 301 audit reports and special study reports of various types and 32 risk warnings and audit recommendations. The Company performed its supervision, evaluation and consultation duties in a more effective way. There was no incident happened in the Company. The examinations covered various lines of business, including corporate banking business, retail banking business, operational management, financial management, trade finance, bills, credit card and IT risk management. The problems identified in the audits were tracked and urged to be rectified, the persons responsible for the problems were held accountable. Collaborations among head office, branches and business management departments in resolving problem were also strengthened. In addition to conducting examination on overall business and process risks, the Department has made remarkable contributions to the continuous improvement of the internal control system and the enhancement of management level across the Bank.

## **XI. Information Disclosure and Investor Relations**

### **(I) Information disclosure**

The Company discloses its information in strict compliances with the regulations of the securities regulatory authorities and publishes all sorts of regular reports and interim reports in accordance with laws to ensure the timeliness, accuracy, truthfulness and integrity of its information disclosure and to ensure equal access to information for all shareholders. In 2011, the Company published 4 regular reports and 47 interim announcements on the Shanghai Stock Exchange. The Company also published over 120 announcements on the Hong Kong Stock Exchange.

In July 2011, the Company was awarded the 2011 Golden Shield Award — Best Information Disclosure of China's Listed Companies in the 2011 Summit Forum on Risk Management of China's Listed Companies jointly organized by China Times (《華夏時報》) and Research Center of Enterprise and Company Law of Peking University. The Company also won the silver prize of the year in the LACP (League of American Communications Professionals) 2010 Annual Report Election. In addition, the 2010 Annual Report of the Company was granted golden prize for financial data and bronze prize for message from the chairman in the ARC (International ARC Awards Competition).

## (II) Investor relations

In 2011, the Company adopted innovative concepts and concentrated on key areas of as well as stepped up its investor relation management to achieve efficient management of its market value. The Company won the Best China Investor Relations Award in China Region in the 13th of IR Global Rankings, IRGR, and the Best



Investor Relations Award in the Second Election of the Best Listed Company organized by the Corporate Governance Asia (《亞洲企業管治》), a well-known journal in Asia.

The management of investor relation is closely in line with the Company's strategic objectives, which emphasizing its market positioning of "bank for NSOEs", "bank for MSEs" and "bank for high-end retail customers". It also demonstrates to investors the latest achievements and future prospects of the Company's NSOEs and MSE business. The Company organized the MSE Business Seminar at Hangzhou Branch in May 2011, in which over 60 investors from various institutions participated. This activity allowed investors to obtain abundant latest information in respects of potential growth, risk control and customer service of MSE businesses.

During the reporting period, the senior management, the head of main business departments and branches of the Company actively participated in the work of investor relations. They visited nearly 80 key shareholders from various countries and regions, such as mainland China, Hong Kong, USA, Singapore and UK, and hosted large scale domestic and international institutional investors to present the characteristics, advantages and prospects of the Company in various aspects ranging from strategic positioning to business operations.

The Company has constantly improved its communication channels including websites, investor hotline, investor journals, investment strategy conferences with securities companies and joint researches. In 2011, the Company participated in two roadshow presentations and four analyst conferences organized by www.cs.com.cn and www.cnstock.com, took part in 15 large-scale institutional investment strategy seminars and successfully held 13 joint researches, contacting over 600 investors in aggregate through various ways such as researches, telephone conferences, investor hotline and emails. The Company also published 12 special issues of "Investor (投資者)".

# Shareholders' General Meeting



## I. Shareholders' General Meeting

1. On 4 May 2011, the First Extraordinary General Meeting in 2011, the First A Share Class Meeting in 2011 and the First H Share Class Meeting in 2011 of the Company were convened at 1/F, Fragrant Hill Hotel, Beijing Fragrant Hill Park, Haidian District, Beijing, the PRC, in which shareholders attended and voted in person or online. The following resolutions were considered and passed at the First Extraordinary General Meeting in 2011: Resolution on the Issuance of A Share Convertible Bonds by China Minsheng Banking Corp., Ltd., Resolution on the Issuance of New H Shares by China Minsheng Banking Corp., Ltd., Resolution on the Statement on the Use of Proceeds from the Previous Fund Raising Activities by the Company, Resolution on the Proposal on the Use of Proceeds from the Issuance of A Share Convertible Bonds and New H Shares and Resolution on the Capital Management Programming (2011-2013) of China Minsheng Banking Corp., Ltd. The following resolutions were considered and passed at the First A Share Class Meeting in 2011: Resolution on the Issuance of A Share Convertible Bonds by China Minsheng Banking Corp., Ltd. and Resolution on the Issuance of New H Shares by China Minsheng Banking Corp., Ltd. The following resolutions were considered and passed at the First H Share Class Meeting in 2011: Resolution on the Issuance of A Share Convertible Bonds by China Minsheng Banking Corp., Ltd. and Resolution on the Issuance of New H Shares by China Minsheng Banking Corp., Ltd. Please refer to China Securities Journal, Shanghai Securities News and Securities Times on 5 May, 2011 for details.
2. On 26 May 2011, the 2010 annual general meeting of the Company was convened at Building VIII, Beijing Friendship Hotel, No. 1 Zhongguancun Nandajie, Haidian District, Beijing, the PRC, in which shareholders attended in person. The following resolutions were considered and passed at the meeting: Resolution on the Annual Report

# Shareholders' General Meeting

of the Company for 2010, Resolution on the Report of the Board of Directors of the Company for 2010, Resolution on the Report of the Supervisory Board of the Company for 2010, Resolution on the Audited Accounts of the Company for 2010, Resolution on the Proposed Profit Appropriation Plan of the Company for 2010, Resolution on the Budget of the Company for 2011, Resolution on the Appointment and Remuneration of the Auditing Firm of the Company for 2011, Resolution on the Revised “Administrative Measures on Connected Transactions of China Minsheng Banking Corp., Ltd.”, Resolution on the Statement on the Use of Proceeds from the Previous Fund Raising Activities of the Company, Resolution on the Authorization to the Board of Directors for the Issue of the RMB Bonds in Hong Kong at Appropriate Timing, Resolution on the Amendments to Certain Provisions of the “Articles of Association of China Minsheng Banking Corp., Ltd.” and Resolution on the Change of Registered Capital of the Company. Please refer to China Securities Journal, Shanghai Securities News and Securities Times on 27 May 2011 for details.

## **II. Election and Replacement of Directors, Supervisors and Senior Management**

During the reporting period, there was no election and replacement of directors, supervisors or senior management of the Company.

# Report of the Board of Directors

## I. Performance of Principal Business and Financial Results

Please refer to “Management Discussion and Analysis”.

## II. Proposed Profit Appropriation Plan and Proposal for Conversion of Capital Reserves to Share Capital

The audited profit after tax of the Company in 2011 is RMB27,436 million. The Company has proposed its 2011 profit appropriation plan as follows: appropriation of 10% of the audited after-tax profit under the CAS, being RMB2,744 million to the statutory surplus reserve; and appropriation of RMB2,900 million for general reserve. The profit distributable to shareholders as at the end of the year is RMB38,486 million. The Company plans to distribute cash dividend of RMB3.0 (before tax) for every 10 shares on the basis of total capital stock on the Record Date, to holders of A Shares and H Shares registered in the Company’s register of members on the Record Date as set out in the announcement regarding the profit distribution plans. The cash dividend will be denominated and declared in Renminbi and the holders of A Shares will be paid in Renminbi whereas the holders of H Shares will be paid in Hong Kong dollars. The actual amount of dividend to be paid in Hong Kong dollars will be determined based on the basic rate of Renminbi against Hong Kong dollars as announced by the PBOC as at the date of the 2011 annual general meeting.

The above profit appropriation plan is subject to the approval of the 2011 annual general meeting and shall be implemented within two months upon adoption at the 2011 annual general meeting.

The Board proposes to distribute interim profit in 2012, and to pay dividend twice a year and to ensure continuity and stability of the dividend policy in future, provided that the capital adequacy ratio complies with regulatory requirements. The Board proposes to the shareholders’ general meeting to authorize the Board to determine the 2012 interim profit distribution plan, for which the cash dividend to be paid is not less than 20% of the Company’s net profit in the first half of 2012.

## III. Distribution of Cash Dividends during the Past 3 Consecutive Years

(Unit: RMB million)

|                                | 2010   | 2009   | 2008  |
|--------------------------------|--------|--------|-------|
| Cash dividends                 | 2,672  | 1,113  | 1,506 |
| Net profit                     | 17,193 | 12,009 | 7,831 |
| Cash dividend payout ratio (%) | 15.54  | 9.27   | 19.23 |

Note: Net profit is the net profit of the Company.

## IV. Cash Dividends Policy of the Company

According to Article 292 of the Articles of Association, the Company may distribute dividends in the form of cash or stock. The distribution of profits of the Company emphasize on reasonable investment returns to investors and shall be sustainable and stable. The Company shall distribute dividends in profit-making years. When distributing the profits of the Company for the year, the total profit distributed in the form of cash dividends for the last three years shall not be less than 30% of the average annual distributable profit of the Company of the last three years.

## V. Investments

### (I) Use of proceeds from previous funds raising

The funds raised were primarily used to supplement the Company's core capital and to improve its capital adequacy ratio.

### (II) Major investment projects

#### 1. Investment in Yidu Minsheng Township Bank Co., Ltd. (宜都民生村鎮銀行股份有限公司)

On 19 April 2010, the 9th meeting of the 5th session of the Board of Directors of the Company resolved to establish Yidu Minsheng Township Bank Co., Ltd. with a registered capital of RMB50 million. The Company made a capital contribution in the amount of RMB25.5 million, representing 51% of the total share capital of such company. Yidu Minsheng Township Bank Co., Ltd. was established on 21 February 2011.

#### 2. Investment in Zhongxiang Minsheng Township Bank Co., Ltd. (鐘祥民生村鎮銀行股份有限公司)

On 19 April 2010, the 9th meeting of the 5th session of the Board of Directors of the Company resolved to establish Zhongxiang Minsheng Township Bank Co., Ltd. with a registered capital of RMB70 million. The Company made a capital contribution in the amount of RMB35.7 million, representing 51% of the total share capital of such company. Zhongxiang Minsheng Township Bank Co., Ltd. was established on 18 March 2011.

#### 3. Investment in Shanghai Jiading Minsheng Township Bank Co., Ltd. (上海嘉定民生村鎮銀行股份有限公司)

On 10 August 2010, the 11th meeting of the 5th session of the Board of Directors of the Company resolved to establish Shanghai Jiading Minsheng Township Bank Co., Ltd. with a registered capital of RMB200 million. The Company made a capital contribution in the amount of RMB102 million, representing 51% of the total share capital of such company. Shanghai Jiading Minsheng Township Bank Co., Ltd. was established on 1 April 2011.

#### 4. Investment in Penglai Minsheng Township Bank Co., Ltd. (蓬萊民生村鎮銀行股份有限公司)

On 19 April 2010, the 9th meeting of the 5th session of the Board of Directors of the Company resolved to establish Penglai Minsheng Township Bank Co., Ltd. with a registered capital of RMB100 million. The Company made a capital contribution in the amount of RMB51 million, representing 51% of the total share capital of such company. Penglai Minsheng Township Bank Co., Ltd. was established on 28 April 2011.

#### 5. Investment in Anxi Minsheng Township Bank Co., Ltd. (安溪民生村鎮銀行股份有限公司)

On 19 April 2010, the 9th meeting of the 5th session of the Board of Directors of the Company resolved to establish Anxi Minsheng Township Bank Co., Ltd. with a registered capital of RMB100 million. The Company made a capital contribution in the amount of RMB51 million, representing 51% of the total share capital of such company. Anxi Minsheng Township Bank Co., Ltd. was established on 4 May 2011.

# Report of the Board of Directors

## **6. Investment in Funing Minsheng Township Bank Co., Ltd. (阜寧民生村鎮銀行股份有限公司)**

On 10 August 2010, the 11th meeting of the 5th session of the Board of Directors of the Company resolved to establish Funing Minsheng Township Bank Co., Ltd. with a registered capital of RMB60 million. The Company made a capital contribution in the amount of RMB30.6 million, representing 51% of the total share capital of such company. Funing Minsheng Township Bank Co., Ltd. was established on 16 August 2011.

## **7. Investment in Taicang Minsheng Township Bank Co., Ltd. (太倉民生村鎮銀行股份有限公司)**

On 10 August 2010, the 11th meeting of the 5th session of the Board of Directors of the Company resolved to establish Taicang Minsheng Township Bank Co., Ltd. with a registered capital of RMB100 million. The Company made a capital contribution in the amount of RMB51 million, representing 51% of the total share capital of such company. Taicang Minsheng Township Bank Co., Ltd. was established on 13 September 2011.

## **8. Investment in Ningjin Minsheng Township Bank Co., Ltd. (寧晉民生村鎮銀行股份有限公司)**

On 10 August 2010, the 11th meeting of the 5th session of the Board of Directors of the Company resolved to establish Ningjin Minsheng Township Bank Co., Ltd. with a registered capital of RMB40 million. The Company made a capital contribution in the amount of RMB20.4 million, representing 51% of the total share capital of such company. Ningjin Minsheng Township Bank Co., Ltd. was established on 22 November 2011.

## **9. Investment in Zhangpu Minsheng Township Bank Co., Ltd. (漳浦民生村鎮銀行股份有限公司)**

On 10 August 2010, the 11th meeting of the 5th session of the Board of Directors of the Company resolved to establish Zhangpu Minsheng Township Bank Co., Ltd. with a registered capital of RMB50 million. The Company made a capital contribution in the amount of RMB25.5 million, representing 51% of the total share capital of such company. Zhangpu Minsheng Township Bank Co., Ltd. was established on 16 December 2011.

## **VI. Operations and Performances of Major Subsidiaries and Investee Companies**

1. As at 31 December 2011, Minsheng Financial Leasing Co., Ltd., a subsidiary of the Company, had total assets of RMB61,223 million and net assets of RMB7,271 million, and posted a net profit of RMB858 million in 2011.
2. As at 31 December 2011, Minsheng Royal Fund Management Co., Ltd., a subsidiary of the Company, had total assets of RMB72.99 million and net assets of RMB40.7 million, and posted a net loss of RMB29.93 million in 2011.
3. As at 31 December 2011, 18 Minsheng township banks had total assets of RMB12,176 million and net assets of RMB1,730 million, and posted net profits of RMB190 million in 2011.
4. As at the end of 2011, China UnionPay Co., Ltd. completed 10,380 million inter-bank bank card transactions in 2011 amounting to RMB15,900,000 million, representing increases of 22.81% and 41.88% respectively as compared with the corresponding period of the previous year.



## VII. Equity Interests of the Company in Other Listed Companies and Financial Enterprises

### (I) Equity interests of the Company in listed companies

Nil.

### (II) Equity interests of the Company in non-listed financial enterprises

|   | Registered capital<br>(in RMB million) | Shareholding<br>of the Company | Nature and scope<br>of business | Place of<br>registration |
|---|--|--------------------------------|---------------------------------|--------------------------|
| Minsheng Financial Leasing Co., Ltd.                | 5,095                                  | 51.03%                         | Leasing                         | Tianjin                  |
| Minsheng Royal Fund Management Co., Ltd.            | 200                                    | 60%                            | Offering and sale of funds      | Guangdong                |
| Pengzhou Minsheng Township Bank Co., Ltd.           | 55                                     | 36.36%                         | Commercial banking              | Sichuan                  |
| Cixi Minsheng Township Bank Co., Ltd.               | 100                                    | 35%                            | Commercial banking              | Zhejiang                 |
| Shanghai Songjiang Minsheng Township Bank Co., Ltd. | 150                                    | 35%                            | Commercial banking              | Shanghai                 |
| Qijiang Minsheng Township Bank Co., Ltd.            | 60                                     | 50%                            | Commercial banking              | Chongqing                |
| Tongnan Minsheng Township Bank Co., Ltd.            | 50                                     | 50%                            | Commercial banking              | Chongqing                |
| Ziyang Minsheng Township Bank Co., Ltd.             | 80                                     | 51%                            | Commercial banking              | Sichuan                  |
| Meihekou Minsheng Township Bank Co., Ltd.           | 50                                     | 51%                            | Commercial banking              | Jilin                    |
| Wuhan Jiangxia Minsheng Township Bank Co., Ltd.     | 80                                     | 51%                            | Commercial banking              | Hubei                    |
| Changyuan Minsheng Township Bank Co., Ltd.          | 50                                     | 51%                            | Commercial banking              | Henan                    |
| Yidu Minsheng Township Bank Co., Ltd.               | 50                                     | 51%                            | Commercial banking              | Hubei                    |
| Shanghai Jiading Minsheng Township Bank Co., Ltd.   | 200                                    | 51%                            | Commercial banking              | Shanghai                 |
| Zhongxiang Minsheng Township Bank Co., Ltd.         | 70                                     | 51%                            | Commercial banking              | Hubei                    |
| Penglai Minsheng Township Bank Co., Ltd.            | 100                                    | 51%                            | Commercial banking              | Shandong                 |
| Anxi Minsheng Township Bank Co., Ltd.               | 100                                    | 51%                            | Commercial banking              | Fujian                   |
| Funing Minsheng Township Bank Co., Ltd.             | 60                                     | 51%                            | Commercial banking              | Jiangsu                  |
| Taicang Minsheng Township Bank Co., Ltd.            | 100                                    | 51%                            | Commercial banking              | Jiangsu                  |
| Ningjin Minsheng Township Bank Co., Ltd.            | 40                                     | 51%                            | Commercial banking              | Hebei                    |
| Zhangpu Minsheng Township Bank Co., Ltd.            | 50                                     | 51%                            | Commercial banking              | Fujian                   |

Notes:

1. During the reporting period, Shanghai Songjiang Minsheng Township Bank Co., Ltd., allotted 0.5 shares for every 1 share held (based on the outstanding 100 million shares in total) to all of its shareholders at a price of RMB2 per share. Its registered capital changed to RMB150 million after the allotment. The Company has participated in such allotment.
2. During the reporting period, Minsheng Financial Leasing Co., Ltd. increased its capital by issuing 1,895 million additional shares at a price of RMB1.3 per share and raised RMB2,463.5 million. After the capital injection, its registered capital changed to RMB5,095 million. None of the existing shareholders, including the Company, participated in the issuance of additional shares.

## VIII. Directors' Interests in Competing Business

None of the Directors holds any interests in business which competes or is likely to compete, either directly or indirectly, with the businesses of the Company.

# Report of the Board of Directors

## IX. Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Securities of the Company or its Associated Corporations under Hong Kong Laws and Regulations

(I) As at 31 December 2011, the following Directors of the Company had the following interests in the shares of the Company:

| Name          | Position               | Class of shares | Long/short position | Capacity                                     | No. of shares | Notes | Percentage of the relevant class of shares in issue (%) | Percentage of all the issued shares (%) |
|---------------|------------------------|-----------------|---------------------|--|---------------|-------|---|---|
| Liu Yonghao   | Non-executive Director | A               | Long position       | Interest held by his controlled corporations | 1,891,893,763 | 1     | 8.38  | 7.08                                    |
| Zhang Hongwei | Non-executive Director | A               | Long position       | Interest held by his controlled corporations | 931,073,370   | 2     | 4.12  | 3.49                                    |
| Wong Hei      | Non-executive Director | A               | Long position       | Interest held by her controlled corporation  | 566,151,500   | 3     | 2.51  | 2.12                                    |
| Lu Zhiqiang   | Non-executive Director | A               | Long position       | Interest held by his controlled corporations | 698,939,116   | 4     | 3.09  | 2.62                                    |
| Shi Yuzhu     | Non-executive Director | A               | Long position       | Interest held by his controlled corporations | 805,600,038   | 5     | 3.57  | 3.02                                    |
|               |                        | H               | Long position       | Interest held by his controlled corporations | 306,879,500   | 5     | 7.43  | 1.15                                    |

# Report of the Board of Directors

## Notes:

- The 1,891,893,763 A shares comprised 558,306,938 A shares directly held by Sichuan South Hope Industrial Co., Ltd. and 1,333,586,825 A shares directly held by New Hope Investment Co., Ltd. Sichuan South Hope Industrial Co., Ltd. was wholly-owned by New Hope Group Co., Ltd., while New Hope Investment Co., Ltd. was held as to 25% and 75% of its issued share capital by New Hope Group Co., Ltd. and New Hope Liuhe Co., Ltd. (formerly known as: Sichuan New Hope Agri-Business Co., Ltd.) respectively. New Hope Group Co., Ltd. held 45.7% of the issued share capital of New Hope Liuhe Co., Ltd. According to the SFO, New Hope Group Co., Ltd. was deemed to be interested in the 558,306,938 A shares held by Sichuan South Hope Industrial Co., Ltd. and the 1,333,586,825 A shares held by New Hope Investment Co., Ltd.

As Mr. Liu Yonghao held 63.65% (in which 1.31% was personally held by his spouse, Ms. Li Wei) of the issued share capital of New Hope Group Co., Ltd., Mr. Liu Yonghao was deemed to be interested in the 1,891,893,763 A shares held by New Hope Group Co., Ltd. according to the SFO. Such interests held by Mr. Liu Yonghao and the interests held by New Hope Group Co., Ltd., Ms. Li Wei and Ms. Liu Chang, the details of which are disclosed in the section headed "Substantial Shareholders' and Other Persons' Interests or Short Positions in Shares and Underlying Shares of the Company under Hong Kong Laws and Regulations" in this annual report, were the same block of shares.

- The 931,073,370 A shares comprised 888,970,224 A shares directly held by Orient Group Incorporation and 42,103,146 A shares directly held by Orient Group Industrial Co., Ltd. 27.98% of the issued share capital of Orient Group Incorporation was held by Orient Group Industrial Co., Ltd., of which 32.58% of the issued share capital was held directly by Mr. Zhang Hongwei and 31.20% of the issued share capital was held by him indirectly through Orient Group Investment Holdings Co., Ltd. 94% of the issued share capital of Orient Group Investment Holdings Co., Ltd. was held by Mingze Orient Investment Co., Ltd., which is wholly-owned by Mr. Zhang Hongwei.
- The 566,151,500 A shares were held by Fuxin Group Co., Ltd., of which 51.03% of the issued share capital was held by Ms. Wong Hei.
- The 698,939,116 A shares were held by China Oceanwide Holdings Group Co., Ltd., of which 96.7% of the issued share capital was held by Oceanwide Group Co., Ltd., which was wholly owned by Oceanwide Holdings Co., Ltd. Mr. Lu Zhiqiang held 77.14% of the issued share capital of Oceanwide Holdings Co., Ltd.
- The 805,600,038 A shares were held by Shanghai Giant Lifetech Co., Ltd. 95.14% of the issued share capital of Shanghai Giant Lifetech Co., Ltd. was held by Giant Investment Co., Ltd., of which 95% of the issued share capital was held by Mr. Shi Yuzhu.

The 306,879,500 H shares were held by Vogel Holding Group Limited, which was wholly-owned by Ms. Shi Jing, daughter of Mr. Shi Yuzhu. Mr. Shi Yuzhu is the de facto controller of Vogel Holding Group Limited and was therefore deemed to have interests in the 306,879,500 H shares held by Vogel Holding Group Limited.

(II) As at 31 December 2011, the following Director of the Company had the following interests in Pengzhou Minsheng Township Bank Co., Ltd, a subsidiary of the Company:

| Name        | Position               | Long/short position | Capacity                                    | Interest in share capital | Note | Percentage of the total registered capital (%) |
|-------------|------------------------|---------------------|---|---------------------------|------|--|
| Liu Yonghao | Non-executive Director | Long position       | Interest held by his controlled corporation | RMB2,000,000              | 1    | 3.64   |

## Note:

- New Hope Group Co., Ltd. is interested in RMB2,000,000 of the registered capital of Pengzhou Minsheng Township Bank Co., Ltd. As Mr. Liu Yonghao held 63.65% (in which 1.31% was personally held by his spouse, Ms. Li Wei) of the issued share capital of New Hope Group Co., Ltd., Mr. Liu Yonghao was deemed to be interested in the equity interest held by New Hope Group Co., Ltd. in Pengzhou Minsheng Township Bank Co., Ltd. according to the SFO.

# Report of the Board of Directors

(III) As at 31 December 2011, the following Director of the Company had the following interests in Shanghai Songjiang Minsheng Township Bank Co., Ltd., a subsidiary of the Company:

| Name      | Position               | Long/short position | Capacity                                     | Interest in share capital | Note | Percentage of the total share capital (%) |
|-----------|------------------------|---------------------|--|---------------------------|------|---|
| Shi Yuzhu | Non-executive Director | Long position       | Interest held by his controlled corporations | RMB6,000,000              | 1    | 6.00                                      |

Note:

1. Shanghai Giant Lifetech Co., Ltd. is interested in RMB6,000,000 of the total share capital of Shanghai Songjiang Minsheng Township Bank Co., Ltd. 95.14% of the issued share capital of Shanghai Giant Lifetech Co., Ltd. was held by Giant Investment Co., Ltd., while Mr. Shi Yuzhu in turn held 95% of the issued share capital of Giant Investment Co., Ltd. Mr. Shi Yuzhu was deemed to be interested in the equity interest held by Shanghai Giant Lifetech Co., Ltd. in Shanghai Songjiang Minsheng Township Bank Co., Ltd. according to the SFO.

Save as disclosed above, as at 31 December 2011, none of the Directors, Supervisors or chief executives held or was deemed to hold any interests and/or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), which were recorded in the register required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, nor had they been granted such rights.

## X. Implementation of Administration System of Usage of External Information of the Company

The 9th meeting of the 5th session of the Board of the Company considered and approved the System of Administration of Delivery and Usage of External Information of the Company on 19 April 2010. Pursuant to its rules, the Company has strengthened the administration of the delivery and usage of external information during the preparation, review and disclosure of regular reports and other material matters. Necessary procedures of circulation, review and disclosure of regular reports and other material matters are implemented to ensure that the Directors, Supervisors, senior management and other relevant personnel of the Company strictly comply with the obligation of confidentiality when preparing regular and interim reports and considering other material matters of the Company in order to prevent any leakage of confidential information.

## XI. Representation of the Board's Responsibility on Internal Control

The Board of the Company was responsible for the establishment, improvement and effective implementation of the internal control system. The purposes of the internal control system are to ensure the compliance of the operation, the security of assets and information contained in the financial report being true, complete and reliable, and to enhance operating efficiency so as to fully achieve the Company's operating strategies and targets. Only reasonable assurance of the above purposes could be provided as there are inherent limitations in the internal control system. The Board of Directors has carried out evaluation on the internal control system which came into effect from 31 December 2011 in accordance with the Basic Standard for Enterprise Internal Control (企業內部控制基本規範).

## XII. Execution of Insider Management System of the Company

The Company has conducted an internal inspection and is not aware of any insider making use of insider information to deal with shares of the Company before the disclosure of material sensitive information which will affect the share price of the Company.

The 9th meeting of the 5th session of the Board of Directors of the Company considered and approved the Insider Management System of the Company (公司內幕資訊知情人管理制度) on 19 April 2010. In accordance with the Provisions on the Establishment of the System for the Registration and Management of People in Possession of Insider Information by Listed Companies (關於上市公司建立內幕信息知情人登記管理制度的規定) promulgated by CSRC, the 22nd session of the Board of Directors of the Company considered and approved the Rules on Insider Registration and Management of the Company (公司內幕資訊知情人登記管理規定) on 22 March 2012 and at the same time, abolished the Insider Management System of the Company (公司內幕資訊知情人管理制度).

The Company has strictly followed the requirements of the registration system of insiders to carry out registration and filing of insiders. There is no information leakage up to now.

## XIII. Major Connected Transactions

During the reporting period, there was no major connected transaction of the Company. At the end of the reporting period, regarding the related party transactions under the relevant accounting principles and rules, please refer to "Related Party" in Note 43 to the Consolidated Financial Statements.

## XIV. Implementation of the Board of Directors' Risk Management Guidelines in 2011 and Guidelines for 2012

### (I) Implementation of the Board of Directors' Risk Management Guidelines in 2011

The Risk Management Guidelines in 2011 of the Board of Directors of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司董事會2011年風險管理指導意見) (the "Guidelines") is the guidelines for the Board of Directors to execute risk strategies. The Risk Management Committee under the Board of Directors is responsible for the supervision and evaluation of the implementation of the Guidelines. The Office of Risk Management Committee conducts evaluation on risk management of the Board of Directors every half year and on ad hoc basis, submits evaluation report on risk management to the Risk Management Committee and the Board of Directors, as well as reports the status and works of risk management and implementation progress of the Guidelines of the management. It also monitors and identifies potential risks by studying and reviewing relevant documents and risk reminders, and provides opinions and recommendations of the Board of Directors and the Risk Management Committee regarding any risks identified to the management.

## **(II) Risk Management Guidelines for 2012 of the Board of Directors**

In compliance with the relevant requirements of the regulatory authorities and considering the Company's risk management practices, the Board of Directors of the Company formulated the Risk Management Guidelines in 2012 of the Board of Directors of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司董事會2012年風險管理指導意見) (the "2012 Guidelines") to effectively implement strategies of risk management of the Board of Directors, strengthen establishment of comprehensive risk management system, enhance risk prevention and resistance capabilities, promote business development and strategic transformation. The 2012 Guidelines provide guidance to the risk management of the Company in 2012 by setting out the guiding concepts, objectives and recommendations, as well as detailed requirements for its implementation, which is summarized as follows:

### **1. Comprehensive risk management and implementation of the New Basel II Accord**

Firstly, the Company shall formulate the future plan for comprehensive risk management based on past experiences and feasibility studies, implement goal setting and accountability systems and facilitate the establishment of comprehensive risk management system. Secondly, it shall consolidate internal and external resources to ensure effective implementation of the New Basel II Accord. Thirdly, the Company shall refine the grading system. Fourthly, the Company shall promote the application of the results of the New Basel II Accord programs. Fifthly, the Company shall improve the stress testing management system.

### **2. Credit risk management**

Firstly, the Company shall continue to push forward the business transformation and structural adjustment. Secondly, the Company shall facilitate the development of featured business and distinctive branches. Thirdly, the Company shall optimize the management of selected customers and differentiated credit policy for key industries. Fourthly, the Company shall strengthen risk management of SME finance business. Fifthly, the Company shall enhance risk management of businesses with high revenue. Sixthly, the Company shall improve capabilities in asset monitoring and management. Seventhly, the Company shall enhance the effectiveness in recovering and settling nonperforming assets.

### **3. Market risk management**

Firstly, the Company shall optimize its market risk management system and policy. Secondly, the Company shall improve its market risk measurement capability. Thirdly, the Company shall integrate and upgrade its market risk management system.

### **4. Operational risk management**

Firstly, the Company shall develop an information system for operational risk management. Secondly, the Company shall promote implementation of the three major instruments of operational risk management. Thirdly, the Company shall optimize basic operational risk management system.

## 5. Liquidity risk management

Firstly, the Company shall apply the new regulations on liquidity risk management promulgated by CBRC. Secondly, the Company shall strengthen and improve cash flow management system in the future. Thirdly, the Company shall formulate comprehensive liquidity risk management indicators.

## 6. Compliance risk management

Firstly, the Company shall continue to implement the regulatory policies. Secondly, the Company shall introduce innovative services to support the strategic transformation and featured business development in a highly efficient manner. Thirdly, the Company shall steadily facilitate internal control and daily management of operational risk and govern compliance management. Fourthly, the Company shall fully promote formulation of internal control measures. Fifthly, the Company shall promote the effectiveness of anti-money laundering. Sixthly, the Company shall strengthen the development of compliance culture. Seventhly, the Company shall put more efforts in setting up professional compliance organization and team.

## 7. IT risk management

Firstly, the Company shall optimize the IT governance and data governance system. Secondly, the Company shall ensure safe operation of significant information system. Thirdly, the Company shall establish prevention and management system to ensure information safety and protect business secrets. Fourthly, the Company shall strengthen the risk management of e-banking. Fifthly, the Company shall facilitate sustainability of its businesses.

## 8. Reputation risk management

Firstly, the Company shall establish a comprehensive reputation risk management system by integrating reputation risk management into its corporate governance and the overall risk management system, and develop a reputation risk prevention and contingency system to enhance crisis management. Secondly, the Company shall strengthen perception and awareness of reputation risk management.

## 9. Outsourcing risk management

Firstly, the Company shall amend the Provisional Measures of Outsourcing Risk Management of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司外包風險管理辦法(試行)) based on actual situation of the Company to further specify the responsibilities of the Board of Directors, Senior Management and the management in outsourcing risk management. Secondly, the Company shall specify outsourcing activities included in the scope of outsourcing risk management, and strictly follow the risk examination procedures in the process of starting outsourcing activities and selecting service providers. Thirdly, the Company shall further optimize the continuous supervision and management procedures for outsourcing activities. Fourthly, the outsourcing department of the Company shall oversee the implementation, progress and quality of outsourcing projects and evaluate the potential risks during the whole process.

## **10. Investment risk management**

Firstly, the Company shall further strengthen the management of combined financial statements according to the regulatory requirements on combined financial statements of banking groups and the current organizational structure of the Company. Secondly, the Company shall establish relevant risk management system and operating mechanism with reference to the corporate governance standard of its existing subsidiaries to raise overall risk management capability of the whole group. Thirdly, the Company shall establish a comprehensive risk control and business operation platform which will be in line with its development based on the current condition of township banks and pursuant to the requirements of corporate governance. It shall also strengthen incentive and restraint system including guidance, training, examination, supervision and appraisal systems to promote stable operation and sustainable development of township banks.

## **11. Audit, inspection and examination**

### **(1) Audit**

Firstly, the Company shall closely monitor the changes of government policies to enhance risk early-warning and handling capabilities. Secondly, the Company shall strengthen the compliance audit on risks in innovating new business and products to facilitate standardized management and compliance operation. Thirdly, the Company shall coordinate on-site and off-site audits, conduct special audits on systematic risks and major connected businesses of the Company, and carry out comprehensive audit, management audit, special audit and effectiveness audit on resource allocation. Fourthly, the Company shall follow up implementation of New Basel II Accord programs and expedite the establishment of the comprehensive risk management system in accordance with new regulatory standards. Fifthly, the Company shall closely monitor IT risks, conduct comprehensive evaluation on system safety, enhance compliance level of e-banking management and strengthen operation safety inspection and evaluation. Sixthly, the Company shall enhance inspection and supervision on incident prevention and control. Seventhly, the Company shall optimize the evaluation of its internal controls.

### **(2) Inspection and examination**

Firstly, the Company shall enhance effectiveness of disciplinary inspection and supervision and continue to build up its disciplinary inspection and supervision team. Secondly, the Company shall emphasize on raising ethical risk prevention and control capability of employees. Thirdly, the Company shall strengthen capabilities of verification of complaint letters and visits and investigation of accident and incident cases, with a view to expediting the establishment of punishment and anti-corruption systems, and create a long term mechanism on special governance. Fourthly, the Company shall further consolidate basic works in regard to disciplinary inspection and supervision and improve the accountability system. Fifthly, the Company shall conduct special anti-corruption inspection and effectiveness supervision. Sixthly, the Company shall reinforce investigation and punishment on economic crime cases, responsibility incidents and violation of rules and regulations.



## **XV. Disciplinary Measures and Penalties to the Company, the Board of Directors and Directors of the Company**

In the reporting period, none of the Company, the Board of Directors or Directors of the Company was subject to any disciplinary measures or penalties.

## **XVI. Opinions of the Auditors**

The Company's 2011 financial statements prepared under the IFRS were audited and signed by KPMG, the certified accountant, which issued a standard auditors' report with unqualified opinions.

## **XVII. Confirmation of the Independence of Independent Non-Executive Directors**

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

## **XVIII. Contractual Rights and Service Contracts of Directors and Supervisors**

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a Director or Supervisor of the Company had a material interest, subsisted during the reporting period. None of the Directors or Supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## **XIX. Sufficiency of Public Float**

According to the public information obtained by the Company and to the knowledge of the Directors of the Company, the Directors confirmed that the Company maintained sufficient public float during the reporting period as required by the Hong Kong Listing Rules.



# Report of the Board of Directors

## **XX. Pre-emptive right**

Pre-emptive right is not prescribed in the Articles of Association of the Company and the Company is not required to issue new shares to the current shareholders based on the shareholding proportion of the shareholders. In accordance with the Article of Association of the Company, the Company may increase its capital by the following ways: public offering of new shares; rights issue to its existing shareholders; distribution of new bonus shares to its existing shareholders; private placing of new shares; and any other methods permitted by the applicable laws and administrative regulations. There is no compulsory rules in relation to pre-emptive right in the Articles of Association.

## I. Activities of the Supervisory Board

### (I) Improvement of policies, rules and procedures

In 2011, the Supervisory Board amended the Provisional Measures on Performance Supervision and Appraisal of the Board and Directors by Supervisory Board of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司監事會對董事會及董事履職監督評價試行辦法), Provisional Measures on Performance Supervision and Appraisal of Senior Management by Supervisory Board of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司監事會對高級管理層及其成員履職監督評價試行辦法), and Provisional Implementation Rules on Performance Supervision and Appraisal of the Board and Directors by Supervisory Board of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司監事會對董事會及董事履職監督評價實施細則(試行)) in 2011.

### (II) Special audits and investigations

1. From May to June 2011, the Supervisory Board performed a special audit on credit extension to group customers of the Bank and its affiliated entities.
2. From June to July 2011, the Supervisory Board engaged an external firm to audit the final accounts upon completion of the redevelopment project of China Minsheng Bank Tower in Shanghai.
3. From October to November 2011, the Supervisory Board conducted a special audit on the bills business of the Bank.

### (III) Performance of Supervisors

1. According to the relevant requirements under the Articles of Association and the Measures on Supervision of Due Diligence by the Supervisory Board, the Supervisory Board further strengthened the supervision and assessment on the performance of the Board of Directors, Directors, the senior management and its staff. The supervision of the performance of Directors and senior management were documented by attending relevant meetings, reviewing the minutes of meetings of the Board of Directors, supplementing and refining records of Directors' performance, grasping and supervising the performance of Directors and Senior Management. The Supervisory Board maintained regular supervision, conducted special reviews, researches and surveys to understand the operation and management status of the Company. During the year, the Supervisory Board had issued an interim supervision review on the performance of the Directors and had given their advice in this respect. At the end of the year, the Supervisory Board arranged annual assessments for the performance of the Directors and senior management, including self-assessment, cross-assessment and test assessment. Taking into account of the regular supervision, the result of the annual performance appraisal of the Directors and senior management was satisfactory. The Report of the Supervisory Board on Performance Appraisal of the Board of Directors and Directors for 2011 (監事會對董事會及董事2011年度履職情況的評價報告) and the Report of the Supervisory Board on Performance Appraisal of the Senior Management and its Individual Members for 2011 (監事會對高級管理層及其成員2011年度履職情況的評價報告) were based on the results of the above-mentioned assessments. According to the results of supervision, all Directors and Senior Management performed their respective duties in accordance with relevant regulations and the annual performance appraisal results of the Directors and senior Management were all "competent".

# Report of the Supervisory Board

2. According to the Provisional Measures on Performance Appraisal of Supervisors (《監事履職評價試行辦法》), the Supervisory Board conducted appraisal on due diligence of Supervisors. The Supervisory Board recorded and reviewed the attendance of each Supervisor to relevant meetings and the proposals considered and the opinion raised thereon, the participation in the research, analysis, special examinations and training activities organized by the Supervisory Board as well as the involvement of each Supervisor in the supervision of the performance of Directors and senior management. In addition to the self-assessment and cross-assessment of each Supervisor, the Supervisory Board assessed the performance of each Supervisor and prepared the Assessment Report on Performance Appraisal of Supervisors for 2011 (《2011年度監事履職評價報告》).

## **(IV) Research and investigation**

1. In April 2011, the Supervisory Board organized an investigation team (3 supervisors in total) to visit Tianjin and Zhengzhou branches to understand their development and operation, especially SME business, liability business and featured businesses and the major difficulties encountered.
2. In April 2011, the Supervisory Board organized an investigation team (3 supervisors in total) to visit Chongqing and Chengdu branches and Qijiang and Ziyang Minsheng Township Banks to understand their business development and operation.
3. In September 2011, the Supervisory Board organized an investigation team (4 supervisors in total) to visit Nanchang Branch to understand their business development and operation, especially strategic transformation, restructuring, risk management and featured businesses.
4. In September 2011, the Supervisory Board formed an investigation team (2 supervisors in total) to visit Hangzhou and Ningbo branches to understand their business development and operation, especially strategic transformation, SME and MSE business, as well as risk exposures in Jiangsu Province and Zhejiang Province.
5. In November 2011, the Supervisory Board organized an investigation team (6 supervisors in total) to visit Nanning Branch to understand their organization construction, personnel management, business operation and internal control, as well as difficulties encountered by newly established branch.

## **(V) Recommendations on management**

In the reporting period, the Supervisory Board made 35 recommendations and advices to the Board of Directors and Senior Management based on their findings from the visits and inspections and special investigations, which included intensifying credit management for group customers, strengthening risk early-warning and control in SME and MSE business, and refining the assessment system and resource allocation. The relevant departments had seriously considered the recommendations and advices and adopted measures to make rectification. The Supervisory Board had pushed forward the management, internal control and risk prevention of the Company and performed its duties effectively.

## **(VI) Improvement of the Supervisory Board**

To have a better understanding of their responsibilities and duties, the Supervisory Board had studied the new requirements and rules of the regulatory authorities on bank governance and the supervisory board, in particular the Measures for Performance Appraisal of Directors of Commercial Banks (商業銀行董事履職評價辦法) promulgated by the CBRC. In addition, the Supervisory Board had organized three training courses for Supervisors during the year. Representatives from the regulatory authorities and external professionals were invited to hold seminars on the impact of the New Basel Accord on China's banking industry and the performance of listed banks in the first half of 2011. All supervisors had attended the training courses for directors and supervisors of listed companies organized by the Beijing Municipal Bureau of the CSRC and advanced training courses for supervisors organized by external organizations to understand the latest development in corporate governance, regulatory regime and duties of supervisory board. 18 issues of newsletter, which contained updates of regulatory policies, major operation information of the Company and activities of the Supervisory Board, were issued to all members of the Supervisory Board to facilitate the performance of their duties.

## **II. Independent Opinion of the Supervisory Board**

### **(I) Lawful operation of the Company**

The operation of the Company complied with the Company Law, Commercial Banking Law and the articles of association. All decision-making procedures were lawful and valid. The Supervisory Board is not aware of any breach of the applicable laws and regulations and the articles of association of the Company or any act detrimental to the interests of the Company or shareholders by any Directors or senior management in performing its duties.

### **(II) Authenticity of the financial statements**

The annual financial statements of the Company had been audited by KPMG Huazhen and KPMG in accordance with the CAS and IFRS, respectively. Standard unqualified auditors' reports had been issued accordingly. The Supervisory Board considers that the annual financial statements for the year of the Company reflect truthfully, accurately and completely the financial position and business performance.

### **(III) Use of proceeds from fund-raising activities**

In 2011, the Company issued RMB10 billion subordinated bonds in inter-bank bond market in China, of which RMB6 billion had a term of 10 years and RMB4 billion had a term of less than 15 years. According to the relevant requirement, the proceeds of RMB10 billion were accounted as supplementary capital of the Company. The Supervisory Board considers that the actual use of proceeds was consistent with those set forth in the prospectus and in compliance with the relevant laws and regulations.

### **(IV) Acquisitions and disposal**

During the reporting period, the Company established nine Minsheng township banks in different towns, including Yidu and Penglai, etc., with an aggregate investment of RMB392.7 million.

# Report of the Supervisory Board

The Supervisory Board is of the opinion that the equity investments in townships banks were in line with the national policies and the diversified development strategies of the Company, and the decision-making procedures of the investment were in compliance with the relevant laws and regulations and the articles of associations. The Supervisory Board is not aware of any breach of relevant laws and regulations. The Supervisory Board is of the opinion that, with the increasing number of Minsheng township banks, the Company, as the major investor, should further refine the development plans, strengthen the supervision and management of the operation, risk management, IT and human resources of the township banks and enhance their profitability and risk resistance capacity.

In the reporting period, the Company did not dispose of any asset.

## **(V) Related party transactions**

The Related Party Transactions Control Committee and relevant departments of the management identified, approved and disclosed connected transactions in accordance with the “Administrative Measures on Related Party Transactions” (關聯交易管理辦法), and management of related party transactions was in compliance with the relevant laws, regulations and the articles of associations. The Supervisory Board is not aware of any act prejudicial to the interests of the Company and its shareholders.

## **(VI) Internal control**

The Supervisory Board had reviewed the 2011 Self-Evaluation Report on Internal Control (《中國民生銀行股份有限公司2011年度內部控制自估評價報告》) and raised no objection to the report. In the reporting period, the Company placed great emphasis on the improvement of internal control and established and implemented a comprehensive, practicable and effective internal control system. The internal control system was sound and comprehensive. The Company successfully implemented the measures under the “Year of internal control and risk aversion system of banking industry” in accordance with the requirement of the regulatory authorities. The awareness and ability of internal control and risk aversion were improved. There was no material crisis and default liability in the year.

## **(VII) Risk Management**

In 2011, the Company further improved its construction of comprehensive risk management system, seriously implemented regulatory rules including “Three Measures and One Guideline”, enhanced the uniform risk management of all businesses and operations and the overall risk management of the Company was strengthened. The Company proactively restructured its business during the year and achieved rapid business growth, stable asset quality, continuous reduction in NPL ratio, controlled risks and improvements both in quality and efficiency. Although significant improvement in risk management was achieved, the Supervisory Board considered that the Company should further strengthen its capital management to have better control on liquidity risks. The Company should also focus on the early warning and control for the risks in SME and MSE business as well as the risk management of such new businesses and products as wealth management. The Company should also pay close attention to the asset quality and increasing loan migration rate to prevent various potential risks.

## **(VIII) Implementation of resolutions adopted at general meetings**

The Supervisory Board raised no objection to the reports and proposals submitted by the Board of Directors to the shareholders’ general meetings during the reporting period and supervised the implementation of the resolutions adopted at shareholders’ general meetings. The Supervisory Board is of the opinion that the Board of Directors had implemented the resolutions in an earnest manner.

## III. Major Tasks of 2012

In 2011, the Supervisory Board effectively performed its duties in accordance with the Articles of Association. However, further improvements are needed in the following aspects: (i) the Supervisory Board will explore and innovate its working method to improve performance in accordance with changes in external environment and development of the Company; (ii) the Supervisory Board will strengthen its supervision capability by improving method and measures for supervision of the Directors and Senior Management in accordance with the regulatory requirements and Company's actual needs; (iii) the Supervisory Board will strengthen the supervision and examination on the development strategy, internal control and systematic risk of the Company in accordance with market changes so as to improve its supervision effectiveness.

In 2012, the Supervisory Board will strengthen communication with the Board of Directors and the Senior Management on the strategic transformation and business development of the Company in accordance with the regulatory requirements of Shanghai and Hong Kong so as to effectively perform its supervisory duties. Major tasks of the Supervisory Board in 2012 include the following:

1. Convening meetings of the Supervisory Board and attend meetings of the Board of Directors and Senior Management. In 2012, the Supervisory Board will further enhance the effectiveness and efficiency of its meetings. Meetings of Supervisory Board and special committees will be convened when necessary to review the regular financial reports and other matters of the Company. Supervisors will attend the meetings of the Board of Directors and its special committees, the Senior Management and shareholders' general meetings to supervise the compliance of the agendas, procedures and decision-making process of these meetings and provide advices and suggestions when necessary.

2. Proceeding with examinations, audit, inspection and research duties. In 2012, the Supervisory Board will focus on the key points of the reform, development and business management of the Company in accordance with the regulatory requirements and the Company's actual needs, and carry out special examinations and inspections on major events in relation to finance, internal controls and risk management of the Company, such as property loan, risk management on wealth management business and post-loan management on MSE loans. The Supervisory Board will also perform departure audits on Directors and Senior Management when necessary.

3. Strengthening the supervision and assessment of Directors and Senior Management. The Supervisory Board will further improve the method and measures for supervision of the performance of Directors and Senior Management in a systematic and scientific manner and enhance effectiveness of the supervision and assessment pursuant to the requirements of Provisional Measures on Performance Appraisal of Directors of Commercial Banks (《商業銀行董事履職評價辦法(試行)》) issued by the CBRC in accordance with relevant provisions on performance supervision formulated by the Supervisory Board.

4. Enhancing the structure of the Supervisory Board and completing the re-election in time. Firstly, the Supervisory Board will revise and refine the relevant policies and methods when necessary to regulate the work procedures and enhance efficiency of supervision. Secondly, the Supervisory Board will enhance the communication with the regulatory authorities, the Board of Directors and the Senior Management to obtain up-to-date information regarding business operation and provide effective supervision and relevant advices and suggestions. Thirdly, the Supervisory Board will organize the re-election of the Supervisory Board in accordance with the provisions of the Articles of Association, requirements of regulatory authorities and the overall arrangement of the Company.

## I. Material Litigation and Arbitration

In the reporting period, the Company had no litigation or arbitration that had significant impact on its operations. As of 31 December, 2011, there were 177 outstanding litigations with disputed amounts over RMB1 million involving the Company as plaintiff for RMB1,100,928,600 and 35 litigations involving the Company as defendant for RMB151,526,900.

## II. Purchase and Disposal of Assets and Mergers and Acquisitions

The Company has strictly complied with the relevant provisions of the Articles of Association, the Basic Accounting Rules and the Administrative Measures on Fixed Assets of the Company in its recognition and account management of residual value of retired fixed assets. No event that has resulted in the damage to the interests of shareholders or the loss of assets of the Company occurred.

## III. Material Contracts and Their Performance

The Company participated and won the bid for use right of Plot Z4 of Core Area of Beijing CBD located at East 3rd Ring Road, Chaoyang District, Beijing. Currently the Company is proceeding with the application of land use certificate.

The Company participated and won the bid for use right of Plot 2010P26 located at the intersection of Douziwei Road and Hubin South Road, Xiamen. Currently the Company is proceeding with land transfer process.

The progress of the construction of Shunyi Headquarter Base in Beijing has been satisfactory. The construction of external curtain walls and installation of fire prevention facilities, low voltage electricity system, ventilation facilities, air-conditioning facilities, electromechanical installation and decorative lighting have been mostly completed. Indoor decoration has been fully commenced and installation of furnaces and elevators was mostly completed. In addition, tender invitation for the procurement and installation of kitchen equipment and procurement of power distribution box (cabinet) was completed. Design of outdoor pipeline network, detailed design of transformer and switchgear room and design of gas connection have been completed.

## IV. Major Guarantees

The Company has provided no guarantee other than financial guarantees within the scope of business approved by the PBOC.

## V. Commitments by the Company

In the reporting period, the Company had no commitment requiring disclosure.



## VI. Other Major Events

1. The Company received the reply from the Guangxi Branch of the CBRC (Gui Yin Jian Fu [2010] No.386), approving the commencement of business operation of Nanning Branch of the Company. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 5 January 2011.
2. The Company received the reply from the CSRC and the State Administration of Foreign Exchange (Zheng Jian Xu Ke [2010] No.1913), approving the qualified foreign institutional investor custody qualification of the Company. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 5 January 2011.
3. The Company received the Decision on Administrative Approval from the PBOC (Yin Shi Chang Xu Zhun Yu Zi [2011] No. 64), approving the Company to issue subordinated bonds of no more than RMB1,000 million in the national inter-bank bond market. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 8 March 2011.
4. The Company received the reply from the CBRC (Yin Jian Fu [2011] No.328), approving, in principle, the Company to issue A share convertible corporate bonds and Secondary Offering of H share. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 2 September 2011.
5. The Company received the reply from the CBRC (Yin Jian Fu [2011] No.364), approving Minsheng Financial Leasing Co., Ltd. to increase its registered capital to RMB5,095 million, after which the Company owns 51.03% of Minsheng Financial Leasing Co., Ltd.. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 27 September 2011.
6. The Company received the reply from the Inner Mongolia Branch of the CBRC (Nei Yin Jian Fu [2011] No.222), approving the commencement of business operation of Hohhot Branch of the Company. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 27 September 2011.
7. The Company received the reply from the CBRC (Yin Jian Fu [2011] No.480), approving the Company to issue financial bonds of no more than RMB50,000 million in the national inter-bank bond market and apply all proceeds from the issuance for supporting loans to MSEs. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 9 November 2011.
8. The Company received the Decision on Administrative Approval from the PBOC (Yin Shi Chang Xu Zhun Yu Zi [2011] No. 119), approving the Company to issue financial bonds of no more than RMB50,000 million in the national inter-bank bond market. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 22 December 2011.
9. The Company received the reply from the Liaoning Branch of the CBRC (Liao Yin Jian Fu [2011] No.508), approving the commencement of business operation of Shenyang Branch of the Company. For details, please refer to China Securities Journal, Shanghai Securities News and Securities Times on 24 December 2011.

# Social Responsibility



2011 marked the Company's 15th anniversary of its establishment. As part of its commitment to the core value of "serving and caring for the people", the Company further improved its performance in fulfilling social responsibility to attain new achievements in areas such as responsibility management, market responsibility, harmonious operation environment, green finance as well as charity and public welfare.

## Responsibility Management

To emphasize the importance of accountability management and reinforce its responsibility management system, the Company set up the Social Responsibility Management Committee (中國民生銀行社會責任管理委員會) for ensuring the scientific and professional management. The Company continued to participate in the establishment and improvement of corporate social responsibility theory of the PRC and provided professional advice on the construction and implementation of indicator system for the banking industry stated in the Guidelines for Preparation of Report on Corporate Social Responsibility of China 2.0 (《中國企業社會責任報告編寫指南2.0》). The quality of the Company's social responsibility report improved gradually and was ranked first among NSOEs in the 2011 White Paper on Corporate Social Responsibility of China (《中國企業社會責任報告白皮書(2011)》). With its focus on strategic transformation and special business features, the Company further improved its compliance risk management through enhancing its risk warning and standard guidance, optimizing the entire management process of product innovation and business operation, and reinforcing legal and compliance training and capacity to reduce operational risks. As such, the Company has made breakthrough in its internal control implementation projects and daily management of operation risk with its outstanding compliance management highly recognized by its peers. In addition, the Group restructured its anti-money laundering organization and system and cultivated dedicated team for anti-money laundering. With optimized and restructured monitoring and reporting system, the Company further improved the capability in prevention and control of anti-money laundering risks.



# Social Responsibility

## Market Performance

The Company proceeded with the reform and innovation on process-based banking by improving the operation mechanism of SBUs, introducing the three major strategic management instruments, namely Customers' Feedback (客戶之聲), Six Sigma (六西格瑪) and Balanced Score Card (平衡計分卡) to enhance scientific and refined management. To comply with the austerity policy of the PRC, the Company provided new bank loans to NSOEs and established strategic partnership with them through its Financial Stewardship and Host Bank services to help them grow bigger and stronger. The Company improved its comprehensive financial service capacity for MSEs by launching the updated version of MSE Finance Version 2.0 (小微金融2.0升級版), establishing the After-sale Service Committee for MSEs (小微金融售後服務工作委員會) and formulating a Strategic Map of MSE Finance (小微金融戰略地圖), while supporting the development of featured industries such as jade, marine fishery and tea businesses. With these efforts, the Company outperformed its peers in terms of customer satisfactory level in comprehensive MSE financial services. In strict compliance with the requirements of the national 12th Five-Year Plan, the Company established the two more SBUs, namely Culture Industry Finance SBU and Modern Agriculture Industry Finance SBU to provide professional financial services for the development of various industries. The Company also strived to build township banks with rural characteristics to support rural and agricultural development. Moreover, with its optimized risk management system, the Company completed the first pillar program under the New Basel II Accord to establish policy and system platforms for controlling market and operational risks. The Company also set up risk management committees at all branches nationwide.

## Harmonious Operation Environment

In respect of customer responsibilities, the Company strived for product and service innovation and smart operations. It has established a special team for product arrangement and innovation to improve existing products and developing new products to satisfy various needs of customers. By formulating the Provisional Administrative Measures on Customer Service (《中國民生銀行客戶服務管理辦法(試行)》) and establishing the joint-meeting on service supervision and execution system (服務督導聯席會議機制), the Company further improved its service quality. The Company paid high attention to customer complaints by classifying reported problems for better management and establishing special authorization mechanism to handle complaints and a customer compensation mechanism. Dedicated to financial education, the Company formulated the Notice on Continuing Public Education in 2011 (《關於2011年持續開展公眾教育服務工作的通知》) to facilitate its public financial education and promotion. In respect of staff responsibilities, the Company focused on the self-development of its employees by protecting staff rights and benefits, optimizing the labor union and staff representative congress system, and providing comprehensive training and career paths for its employees at all levels. Furthermore, to promote the corporate concept of "Minsheng Family", the Company took care of mental and physical health of its employees and helped them to strike a work-life balance. In respect of partner responsibilities, the Company endeavored to maintain cooperation and mutual benefits with governmental organizations of all levels, enterprises, suppliers and research institutes by establishing strategic partnership and facilitating the joint development of all parties.

## Green Finance

The Company optimized the environmental risk management through its strategic planning and standardization of relevant systems and procedures. Initiatives were taken to strengthen risk management of energy-saving and emission reduction related credit granting and green credit, while took stringent control over credit to enterprises with high energy-consuming, high pollution and excessive production capacity. By supporting energy-saving and emission reduction technology, clean coal technology, smart grid and manufacture of new energy equipment, the Company was

able to position itself as a green bank. With its emphasis on the environmental management of daily operation, the Company refined its green office system by striving to reduce the use of water, electricity and paper. As environment protection was a key standard for its centralized procurement, the Company included the priority in using products with energy label, green certificate and environmental-friendly logo into the technology and quality requirements of its procurement and bidding documents and procurement contracts. Special issues on procurement information were also published on a regular basis to promote the policies of green procurement and provide information on energy-saving buildings and environmental protection technology and product exhibitions. Branches were encouraged to procure environmental-friendly products.

## Charity and Public Welfare

The “Welfare Donation Fund” (公益捐贈基金) of the Company has been efficiently operated with increased contribution to public welfare. The Company continued its support for the cultural and public welfare sectors by sponsoring the Yanhuang Art Museum (炎黃藝術館), which opened 290 days during the year and launched 18 exhibitions with over 200,000 visitors. The museum published the special issue for NPC and CPPCC (兩會特刊) and the collection of exhibition articles and founded the “Electronic Newsletter of the Yanhuang Art Museum” (《炎黃藝術館電子通訊》). Minsheng Modern Art Museum in Shanghai, which was sponsored by the Company, launched a total of 8 exhibitions during the year with over 600,000 visitors, and was highly recognized by the domestic and foreign cultural sector, the media and the audience, and was honored as the Best Art Institution (最佳藝術機構) in the Ten Years of Chinese Cultural Development (文化中國十年) campaign. The Company has long been supporting the construction and development of the poverty-stricken regions. It placed emphasis on education for its poverty alleviation work in response to the national strategy of “Invigorating the country through science, technology and education” (科教興國). In 2011, the employees of the Company made a total donation of nearly RMB8 million to the four target counties, namely Hua County and Fengqiu County in Henan Province and Lintao County and Weiyuan County in Gansu Province. The donation was designated for the 13 construction projects of schools, the sponsorship of 2,480 students in poverty and the incentives for 440 outstanding teachers. Training programs were carried out in places such as Beijing and Shenzhen for a total of over 150 outstanding teachers and educational staff members of the four target counties and Luquan County in Yunnan Province. The Company continued to launch the “Poverty Alleviation by Information Provision” (信息扶貧模式) and helped 32 counties and cities in 14 provinces to release free advertisements. Of which, free advertisement for the contingent sale of agricultural products facilitated the selling of a total of over 5.8 billion kilograms of slow-moving agricultural products. Initiatives were also carried out by the Company for the prevention and treatment of AIDS. Donations were made to the “China Red Ribbon Foundation” (中華紅絲帶基金) for establishing school buildings in Longzhou of Yunnan Province, supporting sanitation and antiepidemic programs for pregnant women and new born children affected by AIDS in Liangshan of Sichuan, and sponsoring seminars and promotions of AIDS prevention and treatment throughout China. To support young people in setting up their businesses and increase their employment opportunities, the Company jointly established a Ying Charity Foundation chest with various well-known domestic enterprises and donated RMB20 million to provide young people with services and technical support.

In 2011, the Company’s commitment to the implementation of social responsibility was highly recognized by third parties such as the relevant government authorities, charity organizations and mainstream media. The Company received various awards, including the China Charity Award (中華慈善獎), China’s Leading Enterprise for Poverty Alleviation (全國扶貧開發先進集體), the Charity Award of the Year (年度最佳公益慈善獎), the Philanthropic Ambassador Award (公益大使獎), the Special Contribution Award for Conservation of China’s Cultural Heritage (中國文化遺產保護特別貢獻獎) and the No.1 in China’s Top 100 NSOEs of Excellent Social Responsibility (中國企業社會責任民營百強企業第一名).



# Financial Reports

- I. Independent Auditor's Report
- II. Financial Statements (Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows)
- III. Notes to the Consolidated Financial Statements
- IV. Unaudited Supplementary Financial Information



## **Independent auditor's report to the Shareholders of China Minsheng Banking Corp., Ltd.**

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

We have audited the consolidated financial statements of China Minsheng Banking Corp., Ltd. (the "Bank") and its subsidiaries (together the "Group") set out on pages 149 to 289, which comprise the consolidated and Bank statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

## **Directors' responsibility for the consolidated financial statements**

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



# Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

22 March 2012



# Consolidated Income Statement

For The Year Ended 31 December 2011  
(Expressed in millions of Renminbi, unless otherwise stated)

|  | Note | 2011     | 2010     |
|--|------|----------|----------|
| Interest income  |      | 117,281  | 70,776   |
| Interest expense   |      | (52,460) | (24,903) |
| Net interest income  | 6    | 64,821   | 45,873   |
| Fee and commission income  |      | 15,991   | 8,753    |
| Fee and commission expense   |      | (890)    | (464)    |
| Net fee and commission income                                      | 7    | 15,101   | 8,289    |
| Net trading gain   | 8    | 484      | 284      |
| Net gain arising from disposals of securities and discounted bills | 9    | 1,790    | 221      |
| Impairment losses on assets  | 10   | (8,376)  | (5,504)  |
| Operating expenses   | 11   | (35,449) | (25,452) |
| Other operating expenses   |      | (1,196)  | (735)    |
| Profit before income tax   |      | 37,175   | 22,976   |
| Income tax expense   | 13   | (8,732)  | (5,288)  |
| Net profit   |      | 28,443   | 17,688   |
| Net profit attributable to:  |      |          |          |
| Equity shareholders of the Bank                                    |      | 27,920   | 17,581   |
| Non-controlling interests  |      | 523      | 107      |
|  |      | 28,443   | 17,688   |
| Basic and diluted earnings per share<br>(expressed in RMB)         | 14   | 1.05     | 0.66     |
| Dividends  |      |          |          |
| Final dividend proposed after the end of the reporting period      | 38   | 8,014    | 2,672    |

The notes on pages 158 to 289 form part of these financial statements.

# Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2011  
(Expressed in millions of Renminbi, unless otherwise stated)

|   | Note | 2011          | 2010          |
|---|------|---------------|---------------|
| Net profit  |      | <b>28,443</b> | <b>17,688</b> |
| Other comprehensive income/(loss):                              |      |               |               |
| Net change in fair value of available-for-sale financial assets | 39   | <b>238</b>    | <b>(528)</b>  |
| Income tax relating to available-for-sale financial assets      | 39   | <b>(60)</b>   | <b>134</b>    |
| Other comprehensive income/(loss), net of tax                   |      | <b>178</b>    | <b>(394)</b>  |
| Total comprehensive income                                      |      | <b>28,621</b> | <b>17,294</b> |
| Total comprehensive income attributable to:                     |      |               |               |
| Equity shareholders of the Bank                                 |      | <b>28,098</b> | <b>17,187</b> |
| Non-controlling interests                                       |      | <b>523</b>    | <b>107</b>    |
|   |      | <b>28,621</b> | <b>17,294</b> |

The notes on pages 158 to 289 form part of these financial statements.

# Consolidated Statement of Financial Position

As At 31 December 2011  
(Expressed in millions of Renminbi, unless otherwise stated)

|  | Note | 2011             | 2010             |
|--|------|------------------|------------------|
| <b>ASSETS</b>  |      |                  |                  |
| Cash and balances with central bank                    | 15   | <b>332,805</b>   | <b>266,835</b>   |
| Balances with banks and other financial institutions   | 16   | <b>232,336</b>   | <b>125,462</b>   |
| Precious metals  |      | <b>527</b>       | <b>279</b>       |
| Trading financial assets                               | 17   | <b>20,423</b>    | <b>6,024</b>     |
| Positive fair value of derivatives                     | 18   | <b>587</b>       | <b>476</b>       |
| Placements with banks and other financial institutions | 19   | <b>37,745</b>    | <b>36,453</b>    |
| Financial assets held under resale agreements          | 20   | <b>141,022</b>   | <b>112,932</b>   |
| Loans and advances to customers                        | 21   | <b>1,178,285</b> | <b>1,037,723</b> |
| Investment securities:                                 |      |                  |                  |
| — available-for-sale securities                        | 22   | <b>64,857</b>    | <b>35,192</b>    |
| — held-to-maturity securities                          | 22   | <b>117,886</b>   | <b>128,610</b>   |
| — loans and receivables                                | 22   | <b>8,319</b>     | <b>11,117</b>    |
| Finance lease receivables                              | 23   | <b>44,895</b>    | <b>29,288</b>    |
| Property and equipment                                 | 24   | <b>9,971</b>     | <b>8,809</b>     |
| Deferred income tax assets                             | 25   | <b>6,982</b>     | <b>4,455</b>     |
| Other assets   | 27   | <b>32,424</b>    | <b>20,082</b>    |
| <b>Total assets</b>                                    |      | <b>2,229,064</b> | <b>1,823,737</b> |

The notes on pages 158 to 289 form part of these financial statements.

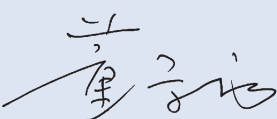
# Consolidated Statement of Financial Position (Continued)

As At 31 December 2011

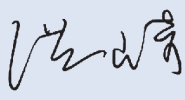
(Expressed in millions of Renminbi, unless otherwise stated)

|   | Note | 2011             | 2010             |
|---|------|------------------|------------------|
| <b>LIABILITIES</b>  |      |                  |                  |
| Borrowings from central bank  |      | 160              | 50               |
| Deposits from customers   | 29   | 1,644,738        | 1,417,877        |
| Deposits and placements from banks and other financial institutions | 30   | 279,341          | 201,221          |
| Financial assets sold under repurchase agreements                   | 31   | 53,794           | 23,873           |
| Borrowings from banks and other financial institutions              | 32   | 40,825           | 25,211           |
| Negative fair value of derivatives                                  | 18   | 787              | 368              |
| Provisions  |      | 3,061            | 1,966            |
| Debt securities issued  | 33   | 31,030           | 21,048           |
| Current income tax liabilities                                      |      | 5,770            | 4,940            |
| Other liabilities   | 34   | 35,448           | 21,926           |
| <b>Total liabilities</b>  |      | <b>2,094,954</b> | <b>1,718,480</b> |
| <b>EQUITY</b>   |      |                  |                  |
| Share capital   | 35   | 26,715           | 26,715           |
| Capital reserve   | 35   | 38,360           | 38,075           |
| Surplus reserve   | 36   | 8,647            | 5,903            |
| General reserve   | 36   | 16,740           | 13,822           |
| Investment revaluation reserve                                      | 39   | (110)            | (288)            |
| Retained earnings   | 36   | 39,245           | 19,881           |
| <b>Total equity attributable to equity shareholders of the Bank</b> |      | <b>129,597</b>   | <b>104,108</b>   |
| Non-controlling interests   | 37   | 4,513            | 1,149            |
| <b>Total equity</b>   |      | <b>134,110</b>   | <b>105,257</b>   |
| <b>Total liabilities and equity</b>                                 |      | <b>2,229,064</b> | <b>1,823,737</b> |

Approved and authorised for issue by the Board of Directors on 22 March 2012.

Chairman 

**Dong Wenbiao**

Director and  
president 

**Hong Qi**

Director 

**Wang Songqi**

(Company Chop)



The notes on pages 158 to 289 form part of these financial statements.

# Statement of Financial Position

As At 31 December 2011  
(Expressed in millions of Renminbi, unless otherwise stated)

|  | Note | 2011             | 2010             |
|--|------|------------------|------------------|
| <b>ASSETS</b>  |      |                  |                  |
| Cash and balances with central bank                    | 15   | <b>330,898</b>   | <b>265,624</b>   |
| Balances with banks and other financial institutions   | 16   | <b>230,190</b>   | <b>124,857</b>   |
| Precious metals  |      | <b>527</b>       | <b>279</b>       |
| Trading financial assets                               | 17   | <b>20,423</b>    | <b>6,024</b>     |
| Positive fair value of derivatives                     | 18   | <b>587</b>       | <b>476</b>       |
| Placements with banks and other financial institutions | 19   | <b>37,745</b>    | <b>36,453</b>    |
| Financial assets held under resale agreements          | 20   | <b>141,022</b>   | <b>112,932</b>   |
| Loans and advances to customers                        | 21   | <b>1,171,516</b> | <b>1,034,260</b> |
| Investment securities:                                 |      |                  |                  |
| — available-for-sale securities                        | 22   | <b>64,827</b>    | <b>35,192</b>    |
| — held-to-maturity securities                          | 22   | <b>117,886</b>   | <b>128,235</b>   |
| — loans and receivables                                | 22   | <b>8,319</b>     | <b>11,117</b>    |
| Investment in subsidiaries                             | 26   | <b>3,425</b>     | <b>2,998</b>     |
| Property and equipment                                 | 24   | <b>9,587</b>     | <b>8,437</b>     |
| Deferred income tax assets                             | 25   | <b>6,842</b>     | <b>4,413</b>     |
| Other assets   | 27   | <b>18,666</b>    | <b>9,013</b>     |
| <b>Total assets</b>                                    |      | <b>2,162,460</b> | <b>1,780,310</b> |

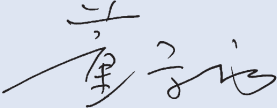
The notes on pages 158 to 289 form part of these financial statements.

# Statement of Financial Position (Continued)

As At 31 December 2011  
(Expressed in millions of Renminbi, unless otherwise stated)

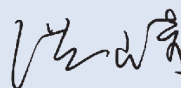
|   | Note | 2011             | 2010             |
|---|------|------------------|------------------|
| <b>LIABILITIES</b>  |      |                  |                  |
| Deposits from customers   | 29   | 1,634,712        | 1,412,663        |
| Deposits and placements from banks and other financial institutions | 30   | 282,437          | 202,360          |
| Financial assets sold under repurchase agreements                   | 31   | 47,391           | 15,247           |
| Negative fair value of derivatives                                  | 18   | 787              | 368              |
| Provisions  |      | 3,061            | 1,966            |
| Debt securities issued  | 33   | 31,030           | 21,048           |
| Current income tax liabilities                                      |      | 5,601            | 4,890            |
| Other liabilities   | 34   | 28,940           | 18,209           |
| <b>Total liabilities</b>  |      | <b>2,033,959</b> | <b>1,676,751</b> |
| <b>EQUITY</b>   |      |                  |                  |
| Share capital   | 35   | 26,715           | 26,715           |
| Capital reserve   | 35   | 38,063           | 38,063           |
| Surplus reserve   | 36   | 8,647            | 5,903            |
| General reserve   | 36   | 16,700           | 13,800           |
| Investment revaluation reserve                                      | 39   | (110)            | (288)            |
| Retained earnings   | 36   | 38,486           | 19,366           |
| <b>Total equity</b>   |      | <b>128,501</b>   | <b>103,559</b>   |
| <b>Total liabilities and equity</b>                                 |      | <b>2,162,460</b> | <b>1,780,310</b> |

Approved and authorised for issue by the Board of Directors on 22 March 2012.

Chairman 

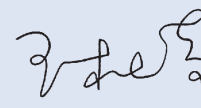
**Dong Wenbiao**

Director and  
president



**Hong Qi**

Director



**Wang Songqi**

(Company Chop)



The notes on pages 158 to 289 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2011  
(Expressed in millions of Renminbi, unless otherwise stated)

| Note  | Attributable to equity shareholders of the Bank |                 |                 |                 |                                |                   |       | Non-controlling interests | Total equity |
|---|---|-----------------|-----------------|-----------------|--------------------------------|-------------------|-------|---------------------------|--------------|
|   | Share capital                                   | Capital reserve | Surplus reserve | General reserve | Investment revaluation reserve | Retained earnings |       |                           |              |
| At 1 January 2011   | 26,715  | 38,075          | 5,903           | 13,822          | (288)                          | 19,881            | 1,149 | 105,257                   |              |
| Net profit  | -   | -               | -               | -               | -                              | 27,920            | 523   | 28,443                    |              |
| Other comprehensive income, net of tax                      | -   | -               | -               | -               | 178                            | -                 | -     | 178                       |              |
| Total comprehensive income                                  | -   | -               | -               | -               | 178                            | 27,920            | 523   | 28,621                    |              |
| Share capital contribution from non-controlling interests   | -   | -               | -               | -               | -                              | -                 | 2,304 | 2,304                     |              |
| Capital premium contribution from non-controlling interests | -   | 290             | -               | -               | -                              | -                 | 310   | 600                       |              |
| Equity dilution of equity shareholders of the Bank          | -   | (5)             | -               | (3)             | -                              | (219)             | 227   | -                         |              |
| Appropriation to surplus reserve 36                         | -   | -               | 2,744           | -               | -                              | (2,744)           | -     | -                         |              |
| Appropriation to general reserve 36                         | -   | -               | -               | 2,921           | -                              | (2,921)           | -     | -                         |              |
| Cash dividends of 2010 38                                   | -   | -               | -               | -               | -                              | (2,672)           | -     | (2,672)                   |              |
| At 31 December 2011   | 26,715  | 38,360          | 8,647           | 16,740          | (110)                          | 39,245            | 4,513 | 134,110                   |              |

| Note                                   | Attributable to equity shareholders of the Bank |                 |                 |                 |                                |                   |       | Non-controlling interests | Total equity |
|--|---|-----------------|-----------------|-----------------|--------------------------------|-------------------|-------|---------------------------|--------------|
|  | Share capital                                   | Capital reserve | Surplus reserve | General reserve | Investment revaluation reserve | Retained earnings |       |                           |              |
| At 1 January 2010                      | 22,262  | 38,075          | 4,184           | 10,904          | 106                            | 12,503            | 860   | 88,894                    |              |
| Net profit                             | -   | -               | -               | -               | -                              | 17,581            | 107   | 17,688                    |              |
| Other comprehensive income, net of tax | -   | -               | -               | -               | (394)                          | -                 | -     | (394)                     |              |
| Total comprehensive income             | -   | -               | -               | -               | (394)                          | 17,581            | 107   | 17,294                    |              |
| Capital contribution from shareholders | -   | -               | -               | -               | -                              | -                 | 182   | 182                       |              |
| Appropriation to surplus reserve 36    | -   | -               | 1,719           | -               | -                              | (1,719)           | -     | -                         |              |
| Appropriation to general reserve 36    | -   | -               | -               | 2,918           | -                              | (2,918)           | -     | -                         |              |
| Cash dividends of 2009                 | -   | -               | -               | -               | -                              | (1,113)           | -     | (1,113)                   |              |
| Stock dividends of 2009                | 4,453   | -               | -               | -               | -                              | (4,453)           | -     | -                         |              |
| At 31 December 2010                    | 26,715  | 38,075          | 5,903           | 13,822          | (288)                          | 19,881            | 1,149 | 105,257                   |              |

The notes on pages 158 to 289 form part of these financial statements.

# Consolidated Statement of Cash Flows

For The Year Ended 31 December 2011  
(Expressed in millions of Renminbi, unless otherwise stated)

|   | 2011             | 2010             |
|---|------------------|------------------|
| Cash flows from operating activities  |                  |                  |
| Profit before income tax  | <b>37,175</b>    | <b>22,976</b>    |
| Adjustments for:  |                  |                  |
| – Impairment losses on assets   | <b>8,376</b>     | <b>5,504</b>     |
| – Depreciation and amortisation   | <b>1,293</b>     | <b>1,072</b>     |
| – Changes in provisions   | <b>1,118</b>     | <b>697</b>       |
| – (Gains)/losses on disposal of property and equipment and other long-term assets   | <b>(4)</b>       | <b>8</b>         |
| – Losses from changes in fair value   | <b>280</b>       | <b>4</b>         |
| – Net gains on disposal of available-for-sale securities                            | <b>(55)</b>      | <b>(221)</b>     |
| – Interest expense on debt securities issued and other financing activities         | <b>1,408</b>     | <b>955</b>       |
| – Interest income from investment securities  | <b>(6,553)</b>   | <b>(5,272)</b>   |
|   | <b>43,038</b>    | <b>25,723</b>    |
| Changes in operating assets:  |                  |                  |
| Net increase in balances with central bank, banks and other financial institutions  | <b>(78,658)</b>  | <b>(92,586)</b>  |
| Net increase in placements with banks and other financial institutions              | <b>(1,292)</b>   | <b>(15,737)</b>  |
| Net increase in financial assets held under resale agreements                       | <b>(28,090)</b>  | <b>(60,633)</b>  |
| Net increase in loans and advances to customers                                     | <b>(148,511)</b> | <b>(175,365)</b> |
| Net increase in other operating assets  | <b>(51,945)</b>  | <b>(21,785)</b>  |
|   | <b>(308,496)</b> | <b>(366,106)</b> |
| Changes in operating liabilities:   |                  |                  |
| Net increase in deposits from customers   | <b>226,861</b>   | <b>289,047</b>   |
| Net increase in deposits and placements from banks and other financial institutions | <b>78,120</b>    | <b>55,251</b>    |
| Net increase in financial assets sold under repurchase agreements                   | <b>29,921</b>    | <b>17,526</b>    |
| Payment of income tax   | <b>(10,489)</b>  | <b>(5,358)</b>   |
| Net increase in other operating liabilities   | <b>41,971</b>    | <b>21,339</b>    |
|   | <b>366,384</b>   | <b>377,805</b>   |
| Net cash from operating activities  | <b>100,926</b>   | <b>37,422</b>    |

The notes on pages 158 to 289 form part of these financial statements.



# Consolidated Statement of Cash Flows (Continued)

For The Year Ended 31 December 2011  
(Expressed in millions of Renminbi, unless otherwise stated)

|  | Note | 2011      | 2010      |
|--|------|-----------|-----------|
| Cash flows from investing activities:  |      |           |           |
| Proceeds from sale and redemption of investments   |      | 113,885   | 132,626   |
| Proceeds from disposal of property and equipment,<br>intangible assets and other long-term assets    |      | 843       | 106       |
| Cash payment for purchase of investment securities   |      | (121,836) | (151,803) |
| Cash payment for purchase of property and equipment,<br>intangible assets and other long-term assets |      | (6,761)   | (4,153)   |
| Net cash from investing activities   |      | (13,869)  | (23,224)  |
| Cash flows from financing activities:  |      |           |           |
| Capital contribution from non-controlling interests to subsidiaries                                  |      | 2,904     | 182       |
| Proceeds from issue of debt securities   |      | 9,975     | 5,771     |
| Repayments of debt securities issued   |      | —         | (7,400)   |
| Interest paid on debt securities issued  |      | (920)     | (2,003)   |
| Dividends paid   |      | (2,672)   | —         |
| Net cash from financing activities   |      | 9,287     | (3,450)   |
| Cash and cash equivalents at 1 January   |      | 172,217   | 161,750   |
| Effect of foreign exchange rate changes  |      | (299)     | (281)     |
| Cash and cash equivalents at 31 December   | 40   | 268,262   | 172,217   |

The notes on pages 158 to 289 form part of these financial statements.

# Notes to the Consolidated Financial Statements

(Expressed in millions of Renminbi, unless otherwise stated)

## 1 General information

China Minsheng Banking Corp., Ltd. (the “Bank”) is a national joint-stock commercial bank established in the People’s Republic of China (“PRC”) on 7 February 1996 with the approval of the State Council of the PRC and the People’s Bank of China (“PBOC”).

The Bank publicly offered 350,000,000 ordinary shares (A shares) on the Shanghai Stock Exchange in 2000. On 26 November and 23 December 2009, the Bank offered 3,439,275,500 ordinary shares (H shares) on the Stock Exchange of Hong Kong Limited, and the total issued share capital increased to RMB22,262 million.

Pursuant to the resolutions of the 2009 Annual Shareholders’ General Meeting dated on 18 June 2010 of the Bank, the Bank issued Bonus Shares to the Shareholders whose names appeared on the register of members of the Bank at the close of business on the respective record dates for the A Shareholders and the H Shareholders on the basis of 2 Bonus Shares for every 10 existing Shares held by them on such record dates. 4,452,455,498 Bonus Shares were issued and the total shares increased to 26,714,732,987 share.

The Bank obtained the financial service certificate No. B10911000H0001 as approved by the China Banking Regulatory Commission (“CBRC”), and the business licence No. 1000001001898 as approved by the State Administration for Industry and Commerce of the PRC.

The Bank and its subsidiaries (collectively the “Group”) provide corporate and personal banking, treasury business, finance leasing, assets management and other financial services in the PRC.

As at 31 December 2011, the Bank has 32 tier-one branches and 20 subsidiaries in the PRC.

These financial statements were authorised for issue by the Board of Directors on 22 March 2012.

## 2 Summary of significant accounting policies

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

### (1) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared on the historical cost basis except that: (i) available-for-sale securities are measured at fair value; and (ii) financial assets and financial liabilities at fair value through profit or loss (including derivative instruments) are measured at fair value.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (1) Basis of preparation (Continued)

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 4.

### (a) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Bank. Of these, the following developments are relevant to the Group's financial statements:

- IAS 24 (revised 2009), Related party disclosures
- Improvements to IFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impacts of the developments are discussed below:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments in Notes 3 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (1) Basis of preparation (Continued)

#### (b) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| <b>Standard</b>    | <b>Content</b>   | <b>Effective for<br/>accounting periods<br/>beginning on or after</b> |
|--------------------|--|---|
| IFRS 7 (amendment) | Financial instruments: Disclosures —<br>Transfers of financial assets                            | 1 July 2011   |
| IAS 12 (amendment) | Income taxes — Deferred tax: Recovery<br>of underlying assets                                    | 1 January 2012  |
| IAS 1 (amendment)  | Presentation of financial statements —<br>Presentation of items of<br>other comprehensive income | 1 July 2012   |
| IFRS 10            | Consolidated financial statements  | 1 January 2013  |
| IFRS 11            | Joint arrangements   | 1 January 2013  |
| IFRS 12            | Disclosure of interests in other entities  | 1 January 2013  |
| IFRS 13            | Fair value measurement   | 1 January 2013  |
| IAS 27             | Separate financial statements (2011)   | 1 January 2013  |
| IAS 28             | Investments in associates and joint ventures   | 1 January 2013  |
| IAS 19 (revised)   | Employee benefits  | 1 January 2013  |
| IFRS 9             | Financial instruments  | 1 January 2015  |

The Group is in the process of making assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for IFRS 9, Financial instruments, which may have an impact on the Group's results and financial position.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (2) Consolidated financial statements

The Group's consolidated financial statements comprise the Bank and all subsidiaries.

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

For the separate financial statements of the Bank, investments in subsidiaries are accounted for at cost. At initial recognition, investment in subsidiaries is measured at: the cost of acquisition determined at the acquisition date when the subsidiaries are acquired through business combination; or the cost of capital injected into the subsidiaries set up by the Group. Impairment losses on investments in subsidiaries are accounted for in accordance with the accounting policies as set out in Note 2(17).

The results and affairs of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Bank shall make necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Bank.

Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The portion of a subsidiary's net assets that is attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, is treated as non-controlling interests and presented as "non-controlling interests" in the consolidated statement of financial position within total equity. The portion of net profit or loss and other comprehensive income of subsidiaries for the year attributable to non-controlling interests is separately presented in the consolidated statement of comprehensive income as a component of the Group's net profit.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (3) Foreign currency translation

These financial statements are presented in RMB, unless otherwise stated, rounded to the nearest million, which is the functional currency of the branches and subsidiaries of the Group.

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. 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 dates of the transactions. 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 values are determined; exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale equity instruments, which are recognised in other comprehensive income.

### (4) Income recognition

Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### (a) Interest income

Interest income from interest-bearing financial instruments is recognised in profit or loss based on the 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 method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument 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 rate of interest used to discount the future cash flows for the purpose of measuring the related impairment loss.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (4) Income recognition (Continued)

#### (a) Interest income (Continued)

When the future cash flow or the expected life of financial assets or financial liabilities could not be estimated reliably, the Group adopted the contractual cash flow over the full contractual term of the financial assets or financial liabilities.

#### (b) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group 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 Group making a loan, the fee is recognised as revenue on expiry.

### (5) Financial assets

#### (a) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. Management determines the classification of the Group's investments at initial recognition.

##### (i) *Financial assets at fair value through profit or loss*

This category includes those classified as held for trading and those designated as at fair value through profit or loss at inception. The Group has not designated any financial assets as at fair value through profit or loss.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-making. Derivatives are also classified as held for trading unless they are designated and effective as hedging instruments or related to financial guarantee contracts.

##### (ii) *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 Group intends to sell immediately or in the near term, which are classified as held for trading; (ii) those that the Group upon initial recognition designates as at fair value through profit or loss or as available-for-sale; or (iii) those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (5) Financial assets (Continued)

#### (a) Classification (Continued)

##### (iii) *Held-to-maturity investments*

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

The Group shall reclassify any remaining held-to-maturity investments as available-for-sale and shall not classify any financial assets as held-to-maturity during the current financial year or during the two preceding financial years, if the Group has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) except for sale or reclassification that:

- is so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occurs after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- is attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

##### (iv) *Available-for-sale investments*

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.

#### (b) Recognition and measurement

All financial assets are recognised in the statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets are measured initially at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial assets at fair value through profit or loss are expensed immediately.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (5) Financial assets (Continued)

#### (b) Recognition and measurement (Continued)

Subsequent to initial recognition, held-to-maturity investments and loans and receivables are measured at amortised cost, while other categories of financial assets 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 assets at fair value through profit or loss are recognised in profit or loss.

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

When the available-for-sale financial assets are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income and reclassified into the profit or loss.

Dividend income from the available-for-sale equity instruments is recognised in profit or loss when the investee declares the dividends. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss.

#### (c) Derecognition

The Group 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 Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group 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.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (5) Financial assets (Continued)

#### (c) Derecognition (Continued)

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group 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.

### (6) Impairment of financial assets

At the end of each reporting period, the Group assesses 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 Group will recognise the impairment loss in profit or loss. Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

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 Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group 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 Group, including: adverse changes in the payment status of borrowers in the Group, 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 Group;

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (6) Impairment of financial assets (Continued)

- 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; and
- other objective evidence indicating there is an impairment of the financial asset.

#### (a) 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 profit or loss.

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.

##### ***Collective assessment***

Homogeneous groups of loans and advances to customers not considered individually significant and individually assessed loans and receivables 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 profit or loss.

For homogeneous groups of loans and advances that are not considered individually significant, the Group 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.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (6) Impairment of financial assets (Continued)

#### (a) Loans and receivables and held-to-maturity investments (Continued)

##### **Collective assessment (Continued)**

Loans and receivables 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 Group 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.

At the end of each reporting period, collective assessment covers those loans and receivables that were impaired 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.

##### **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 profit or loss. 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 Group determines that a loan has no reasonable prospect of recovery after the Group 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 profit or loss through impairment losses.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (6) Impairment of financial assets (Continued)

#### (a) Loans and receivables and held-to-maturity investments (Continued)

##### **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 Group 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.

#### (b) 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 in other comprehensive income is reclassified to the profit or loss 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 profit or loss. 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 profit or loss.

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, 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 profit or loss; (ii) the impairment loss on equity instruments classified as available-for-sale shall not be reversed through the profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income; or (iii) the impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed.

### (7) Financial liabilities

#### (a) Classification, recognition and measurement

The Group classifies its financial liabilities into the following two categories at inception: financial liabilities at fair value through profit or loss and other financial liabilities.

##### **(i) Financial liabilities at fair value through profit or loss**

This category includes those classified as held for trading and those designated as at fair value through profit or loss at inception. The Group has not designated any financial liabilities as at fair value through profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (7) Financial liabilities (Continued)

#### (a) Classification, recognition and measurement (Continued)

##### (i) *Financial liabilities at fair value through profit or loss (Continued)*

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing it in the near term. It is carried at fair value and any gains and losses from changes in fair value are recognised in profit or loss.

##### (ii) *Other financial liabilities*

Other financial liabilities are recognised initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently carried at amortised cost using the effective interest method.

#### (b) Derecognition

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 Group 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 profit or loss.

### (8) Derivative financial instruments and embedded derivative financial instruments

The Group uses derivative financial instruments such as forward, futures, swap and option contracts to hedge its risks associated with foreign currency and interest rate fluctuation respectively. A derivative financial instrument has all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

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 profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (8) Derivative financial instruments and embedded derivative financial instruments (Continued)

An embedded derivative financial instrument is a component of a hybrid contract that includes a non-derivative host contract (the “host contract”), and the derivative financial instrument causes some or all of the cash flows that otherwise would be required by the contract to be modified, according to a specified interest rate, financial instrument price, foreign exchange rate, index of prices or interest rate index, credit rating or credit index, or other variables such as the conversion option of a convertible bond. The embedded derivative is 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 profit or loss.

If an embedded derivative is separated, the host contract shall be accounted for as financial assets or liabilities, if it is a financial instrument.

Gains and losses from changes in fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are reported in profit or loss. The Group has no derivative positions that are accounted for as hedges.

### (9) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on quoted market prices.

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 Group 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 Group reviews the valuation techniques and tests them for validity.

### (10) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group 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.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (11) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Group principally for trading purpose are initially recognised at fair value and re-measured at fair value less cost to sell with changes in fair value less cost to sell included in “net trading gain/(loss)” in the statement of comprehensive income. Precious metals that are not acquired by the Group principally for trading purpose are carried at lower of cost and net realisable value.

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

Financial assets held under resale agreements are transactions where the Group 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 Group 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 in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

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.

### (13) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets are recognized and reported in “other assets” in the statement of financial position when the Group intends to achieve an orderly realization of the impaired assets and the Group is no longer seeking repayment from the borrower.

Repossessioned assets are initially recognized at fair value plus related costs when they are obtained as compensation for loan principal and interest. Subsequently, the repossessioned collateral assets are measured at the lower of their carrying amount and fair value less costs to sell. Repossessioned assets do not carry depreciation and amortization. The impairment losses of initial measurement and subsequent revaluation are charged to the income statement.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (14) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property. Investment properties are measured initially at cost. Subsequent costs are recognised in the carrying amount of the item if the recognition criteria are satisfied. Expenditures related to ordinary maintenance are recognised in profit or loss.

The Group adopts the cost model for subsequent measurement of the investment properties. Depreciation is calculated to write off to profit or loss the cost of investment properties, less their estimated residual value, if any, using the straight line method over their estimated useful lives. The estimated useful lives, the estimated net residual values expressed as a percentage of cost and the annual depreciation rates of the investment properties are as follows:

|           | Estimated<br>useful lives | Estimated net<br>residual value | Annual<br>depreciation rate |
|-----------|---------------------------|---------------------------------|-----------------------------|
| Buildings | 40 years                  | 5%                              | 2.38%                       |

When an investment property is transferred to an owner-occupied property, it is reclassified as property at its carrying amount at the transfer date. When an owner-occupied property is transferred to earn rentals or for capital appreciation, the property is reclassified as investment property at its carrying amount at the transfer date.

At the end of each reporting period, the Group analyses the estimated useful lives, net residual value and depreciation method of the investment property, and adjusts if appropriate.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirements or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the assets, and is recognised in profit or loss in the period of the retirement or disposal.

### (15) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (15) Property and equipment (Continued)

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item, if it is probable that the future economic benefits associated with the item will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of property and equipment are recognised in profit or loss.

Depreciation is amortised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives, the estimated net residual values expressed as a percentage of cost and the annual depreciation rates of the investment properties are as follows:

|                          | Estimated<br>useful lives | Estimated net<br>residual value | Annual<br>depreciation rates |
|--------------------------|---------------------------|---------------------------------|------------------------------|
| Buildings                | 15–40 years               | 5%                              | 2.38%–6.33%                  |
| Leasehold improvements   | 5–10 years                | 0%                              | 10%–20%                      |
| Office equipment         | 5–10 years                | 5%                              | 9.5%–19%                     |
| Transportation equipment | 5–24 years                | 5%                              | 3.96%–19%                    |

No depreciation is provided on construction work in progress.

At the end of each reporting period, the Group analyses the estimated useful lives, net residual value and depreciation method of property and equipment, and adjusts if appropriate.

Impairment losses on property and equipment are accounted for in accordance with the accounting policies as set out in Note 2(17).

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

### (16) Intangible assets

Intangible assets include land use rights and computer software, and they are measured at cost.

The cost less estimated net residual values of the intangible assets is amortised in profit or loss on a straight-line basis over their useful lives. Impaired intangible assets are amortised net of accumulated impairment losses. Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2(17).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (16) Intangible assets (Continued)

If purchase costs of land use rights and the buildings located thereon cannot be reliably allocated between the land use rights and the buildings, all of the purchase costs are recognised as properties.

At the end of each reporting period, the Group analyses the estimated useful lives and the amortisation method of the intangible assets, and adjusts if appropriate.

### (17) Impairment of non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

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 Group determines the recoverable amount of the Cash-generating Unit ("CGU") to which the asset belongs.

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.

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 Group 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 profit or loss.

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

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (18) 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 end of each reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. 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.

At the end of each reporting period, 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 Group 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 Group 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.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

### (19) Employee benefits

Employee benefits mainly include salaries, bonuses, allowances, subsidies, welfare, social insurance and housing funds, labour union expenditures and personnel education as well as other expenditures in exchange for services rendered by employees.

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 expenses in profit or loss.

#### (a) Social insurance and housing fund

Pursuant to the relevant laws and regulations in the PRC, the Group has joined the social security system established and managed by government agencies. The Group makes basic pension fund, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance contributions to government agencies at the applicable rates based on the amounts in accordance with the related laws and regulations. The contributions are charged to the profit or loss on an accrual basis.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (19) Employee benefits (Continued)

#### (b) Other defined contribution retirement schemes

In addition to the statutory provision schemes, the Bank's employees can voluntarily joined the China Minsheng Banking Cop., Ltd. annuity scheme (the "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 profit or loss when the contributions are made.

### (20) Provisions

A provision is recognised in the statement of financial position if, as the result of a past event, the Group 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. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

### (21) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

#### (a) Operating leases

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss, 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. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

#### (b) Finance leases

When the Group is a lessor under financial lease, at the leasing commencement date, the minimum lease payments receivables and initial direct costs are recognised as finance lease receivables and any unguaranteed residual value is recognised at the same time. The difference between the sum of minimum lease payments receivables, initial direct costs, the unguaranteed residual value and their present value is accounted for as unearned finance income.

The unearned finance income is amortised using the effective interest method over the lease period.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies set out in Note 2(6)(a).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (22) Contingent liabilities

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.

Contingent liabilities which are not recognised as a liability are expected to be disclosed in the notes only. If the situation changes, the contingent liabilities are recognised as liability when it is probable that an outflow of economic resources will be required and the amount of obligation can be measured reliably.

### (23) Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group 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 Group 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 Group, and the Group grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Group 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.

### (24) Profit distribution

Proposed dividends which are declared and approved after the end of each reporting period are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the notes to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

### (25) Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (26) Financial guarantees contracts

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

### (27) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) The entity is controlled or jointly controlled by a person identified in (a);
  - (vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 2 Summary of significant accounting policies (Continued)

### (28) Operating segment

The Group determines its operating segments on the basis of its internal organisational structure, management requirements and internal reporting practices.

An operating segment is a component of the Group that meets all the following requirements: (a) it engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group; (b) its operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and (c) separate financial information is available. The operating segments that meet the specified criteria have been aggregated, and the operating segment that meets quantitative thresholds have been reported separately.

The reports on an operating segment are consistent with those internal reports submitted to the chief operating decision maker.

## 3 Financial risk management

### (1) Financial risk management overview

The Group's activities expose it to a variety of financial risks, which entails analyses, evaluations, acceptance and management of risks of varying degrees or combinations. The core characteristic of the financial business is taking risk; risks are inevitable in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

As at 31 December 2011, the Group provides commercial banking, leasing, fund raising and sales and other financial services through the Bank and its subsidiaries, Minsheng Financial Leasing Co., Ltd. ("Minsheng Leasing") and Minsheng Royal Fund Management Co., Ltd. ("Minsheng Royal Fund Management"), and 18 township banks. Its subsidiaries as separate entities, are responsible for financial risk management in their respective businesses. In 2011, the financial risk arising from commercial banking was the most significant risk for the Group's operations.

The Group's risk management policies are designed to set appropriate risk limits and controls, and to monitor risks and limit compliance through reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems in line with changes in markets, products and the industry's best practices.

The Bank has a Risk Management Committee under the Board of Directors, and the committee is responsible for setting the Bank's overall risk management strategies, monitoring the Bank's risk management and internal controls and assessing the Bank's overall risk position. In accordance with the risk management strategies set by the committee, the Bank's senior management formulates and promotes compliance of risk management policies, practices and procedures.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (1) Financial risk management overview (Continued)

The Bank has a Strategic Development and Investment Management Committee under the Board of Directors. The committee is responsible for the daily management of subsidiaries, with a comprehensive risk management framework in the pipeline at the Group level.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk comprises currency risk, interest rate risk and other price risk.

### (2) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to it. Credit exposures arise principally in lending, trade finance, treasury and leasing activities. There is also credit risk in off-balance sheet financial instruments, such as credit commitments and derivatives.

Currently, the Bank's Risk Management Committee is responsible for decision-making and centralised coordination in credit risk prevention. The committee manages credit risk through a number of methods, including specialised credit assessment, centralised quality monitoring, and centralised management and collection of stressed assets.

#### (i) Credit risk measurement

##### *a Loans and credit commitments*

The Group measures and manages the quality of its credit assets according to the CBRC Guidelines for Risk Classification of Loans (the "Guidelines"). The Guidelines require financial institutions to classify their credit assets into five categories, namely pass, special mention, sub-standard, doubtful and loss, of which the last three categories are non-performing loans. At the same time, the Group includes its off-balance sheet credit commitments as part of its overall credit extension, applies credit limit management, and classifies key off-balance sheet items in accordance with the Guidelines. The Bank has also developed the Administrative Measures for Risk Classification of Credit Assets of China Minsheng Banking Corporation Limited to guide its daily risk management of credit assets, following classification principles fully consistent with the Guidelines.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (i) Credit risk measurement (Continued)

##### a *Loans and credit commitments (Continued)*

The core definitions of credit asset classifications in the Guidelines are as follows:

|                  |   |
|------------------|---|
| Pass:            | The borrower can fulfill contracts, and there is no sufficient reason to suspect that the principal and interest of loans cannot be repaid in full on time.   |
| Special-mention: | The borrower can make current payments, but there may be some potential issues that could adversely impact future payments.   |
| Substandard:     | The borrower's repayment ability has been impaired and its normal income is insufficient to repay the loan principal and interest in full. Even with the enforcement of the related guarantee (if any), there may be a certain level of loss. |
| Doubtful:        | The borrower can't repay the principal plus the interest in full. Even with the enforcement of guarantee (if any), there will be a significant loss.  |
| Loss:            | After taking all possible actions or resorting to all necessary legal proceedings, the loan principal and interest cannot be recovered or only a small portion of them can be recovered.  |

##### b *Debt securities and other bills*

For debt securities and other bills, the Group manages credit risk exposures by setting limits to external credit ratings of its investments. A credit rating of BBB or above (by Standard & Poor's or equivalent agencies) at the time of purchase is required for foreign currency debt securities investments. RMB debt securities investments require a rating of A or above for long-term securities investments, and a rating of A-1 or above for short-term securities investments, from an external rating agency recognised by the PBOC. The Group's risk control team also regularly reviews credit ratings of issuers of securities held by the Group and makes risk management recommendations from both industry and enterprise perspectives for adjustments to risk management practices.

#### (ii) Risk limit control and mitigation policies

The Group exercises risk concentration management and controls over its counterparties, whether individuals or groups, and industries and geographical regions.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (ii) Risk limit control and mitigation policies (Continued)

The Group has established relevant mechanisms to apply tiered management of credit risks, and set limits to acceptable risks for different individual or group counterparties, different industries and geographical regions. The Bank monitors the risk status of these customers regularly and reviews their risk positions at least once a year.

Risk exposures to borrowers, including banks, are further classified into on- and off-balance sheet risk exposures, and controls have been applied to daily risk limits of each trading account. The Bank also monitors basis actual risk exposures daily in relation to corresponding risk limits.

The Group controls its credit risks through, among other necessary measures, regular analyses of a customer's ability to repay interest and principal, and making appropriate adjustments to credit lines.

Other specific control and mitigation measures include:

#### a Collateral

The Group and its subsidiaries have individually established a range of risk management policies and adopted different methods to mitigate credit risk. A critical method for the Group's control of its credit risks is to acquire collateral, security deposits and guarantees from enterprises or individuals. The Group has specified acceptable types of collaterals, mainly including the following:

- Real estate and land use rights
- Machinery and equipment
- Right to receive payments and accounts receivable
- Financial instruments such as time deposits, debt securities and equities.

In order to minimise its credit risk, once an indication of impairment has been identified with an individual loan, the Group will seek additional collateral from counterparties or require additional guarantors.

Collateral held as security for financial assets other than loans and accounts receivable is determined by the instruments' nature. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (ii) Risk limit control and mitigation policies (Continued)

##### **b Derivative instruments**

Only the Bank is authorised to engage in financial derivative transactions. The Bank maintains strict net exposure limits in its financial derivative transactions with counterparties and monitors the activities through daily summary reports on the use of exposure limits. The Bank's exposure to credit risk of derivative instruments is limited to derivative instruments with positive fair value. The Bank sets credit limits for counterparties in its management system to monitor the credit position of derivative transactions and mitigates credit risk associated with derivative instruments by requiring margin deposits from counterparties.

##### **c Credit related commitments**

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

Loan commitments and financial leasing commitments represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

#### (iii) Impairment allowance policies

In accordance with accounting policies and regulations, if there is objective evidence that indicates the cash flow for a particular loan is expected to decrease, and the amount can be estimated, the loan is recorded as an impaired loan and the impairment loss is recognised in the income statement.

Note 2(6) illustrates the criteria that the Group uses to determine that there is an objective evidence of impairment loss.

The Group's policy requires regular review of the quality of individually significant financial assets. For assets for which an allowance for impairment loss is provided individually, the amount is determined by an evaluation of the incurred loss at reporting date on a case-by-case basis. In making such assessments, the Group considers the value of collateral held and expected future cash flows from the asset.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (iii) Impairment allowance policies (Continued)

Impairment allowances are provided for the following portfolios according to historical data, experience and statistical techniques: (i) those consisting of homogenous assets that are individually below materiality thresholds; and (ii) those where losses that have been incurred but have not yet been individually identified with any specific asset within the portfolio.

#### (iv) Maximum credit risk exposure

The following table presents the Group's and the Bank's maximum exposure to credit risk as at the end of the reporting period without considering any collateral held or other credit enhancements, which is represented by the carrying amount of each type of financial assets after deducting any impairment allowance.

|  | Group            |                  | Bank             |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2011             | 2010             | 2011             | 2010             |
| Balances with central bank                             | 327,630          | 262,238          | 325,796          | 261,628          |
| Balances with banks and other financial institutions   | 232,336          | 125,462          | 230,190          | 124,857          |
| Placements with banks and other financial institutions | 37,745           | 36,453           | 37,745           | 36,453           |
| Trading financial assets                               | 20,423           | 6,024            | 20,423           | 6,024            |
| Positive fair value of derivatives                     | 587              | 476              | 587              | 476              |
| Financial assets held under resale agreements          | 141,022          | 112,932          | 141,022          | 112,932          |
| Loans and advances to customers                        |                  |                  |                  |                  |
| — Corporate loans and advances                         | 821,348          | 761,632          | 817,192          | 759,438          |
| — Personal loans and advances                          | 356,937          | 276,091          | 354,324          | 274,822          |
| Investment securities — Debt securities                | 190,923          | 174,794          | 190,893          | 174,419          |
| Finance lease receivables                              | 44,895           | 29,288           | —                | —                |
| Other financial assets                                 | 19,920           | 13,220           | 14,115           | 7,490            |
| <b>Total</b>   | <b>2,193,766</b> | <b>1,798,610</b> | <b>2,132,287</b> | <b>1,758,539</b> |
| Off-balance sheet credit commitments                   | 670,093          | 439,173          | 666,815          | 436,703          |
| <b>Maximum credit risk exposure</b>                    | <b>2,863,859</b> | <b>2,237,783</b> | <b>2,799,102</b> | <b>2,195,242</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (v) Loans and advances to customers

|  | Group     |           | Bank      |           |
|--|-----------|-----------|-----------|-----------|
|  | 2011      | 2010      | 2011      | 2010      |
| Gross balance of loans and advances to customers |           |           |           |           |
| Neither past due nor impaired                    | 1,193,177 | 1,047,549 | 1,186,313 | 1,044,050 |
| Past due but not impaired                        | 4,505     | 2,683     | 4,505     | 2,683     |
| Impaired   | 7,539     | 7,339     | 7,537     | 7,339     |
|  | 1,205,221 | 1,057,571 | 1,198,355 | 1,054,072 |
| Less: allowance for impairment loss              |           |           |           |           |
| Neither past due nor impaired                    | (22,603)  | (15,483)  | (22,508)  | (15,447)  |
| Past due but not impaired                        | (430)     | (168)     | (430)     | (168)     |
| Impaired   | (3,903)   | (4,197)   | (3,901)   | (4,197)   |
|  | (26,936)  | (19,848)  | (26,839)  | (19,812)  |
| Net balance                                      |           |           |           |           |
| Neither past due nor impaired                    | 1,170,574 | 1,032,066 | 1,163,805 | 1,028,603 |
| Past due but not impaired                        | 4,075     | 2,515     | 4,075     | 2,515     |
| Impaired   | 3,636     | 3,142     | 3,636     | 3,142     |
|  | 1,178,285 | 1,037,723 | 1,171,516 | 1,034,260 |

#### a Neither past due nor impaired

Credit risk of loans and advances to customers neither past due nor impaired was analysed as follows:

|                              | Group     |           | Bank      |           |
|------------------------------|-----------|-----------|-----------|-----------|
|                              | 2011      | 2010      | 2011      | 2010      |
| Corporate loans and advances | 834,375   | 771,795   | 830,163   | 769,574   |
| Personal loans and advances  | 358,802   | 275,754   | 356,150   | 274,476   |
| Total                        | 1,193,177 | 1,047,549 | 1,186,313 | 1,044,050 |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (v) Loans and advances to customers (Continued)

##### a *Neither past due nor impaired (Continued)*

Loans and advances to customers neither past due nor impaired were analysed by types of collateral as follows:

|  | Group            |                  | Bank             |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2011             | 2010             | 2011             | 2010             |
| Unsecured loans                              | 176,563          | 175,583          | 176,499          | 175,568          |
| Guaranteed loans                             | 366,179          | 293,982          | 362,036          | 291,471          |
| Loans secured by                             |                  |                  |                  |                  |
| — tangible assets other than monetary assets | 512,098          | 486,359          | 510,079          | 485,496          |
| — monetary assets                            | 138,337          | 91,625           | 137,699          | 91,515           |
| <b>Total</b>                                 | <b>1,193,177</b> | <b>1,047,549</b> | <b>1,186,313</b> | <b>1,044,050</b> |

##### b *Past due but not impaired*

In general, loans that are past due for less than 90 days are not identified as impaired loans unless there is evidence of impairment.

At the inception of loan drawdown, the Group requires independent asset evaluation agencies to perform valuation assessments of the corresponding collateral. When there is evidence that indicates the collateral is impaired, the Group will review whether the collateral is sufficient to cover the credit risk of the corresponding loans.

The following table presents the ageing analysis of each type of loans and advances to customers of the Group and the Bank which were past due but not impaired as at the end of the reporting period.

#### Group and Bank

|                              | 2011              |               |               |                   | Total        |
|------------------------------|-------------------|---------------|---------------|-------------------|--------------|
|                              | Less than 30 days | 30 to 60 days | 60 to 90 days | More than 90 days |              |
| Corporate loans and advances | 168               | 30            | 4             | —                 | 202          |
| Personal loans and advances  | 1,627             | 1,914         | 495           | 267               | 4,303        |
| <b>Total</b>                 | <b>1,795</b>      | <b>1,944</b>  | <b>499</b>    | <b>267</b>        | <b>4,505</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (v) Loans and advances to customers (Continued)

##### b Past due but not impaired (Continued)

##### Group and Bank (Continued)

|                              | 2010                 |                  |                  |                      | Total        |
|------------------------------|----------------------|------------------|------------------|----------------------|--------------|
|                              | Less than<br>30 days | 30 to<br>60 days | 60 to<br>90 days | More than<br>90 days |              |
| Corporate loans and advances | 73                   | 1                | —                | —                    | 74           |
| Personal loans and advances  | 1,823                | 479              | 229              | 78                   | 2,609        |
| <b>Total</b>                 | <b>1,896</b>         | <b>480</b>       | <b>229</b>       | <b>78</b>            | <b>2,683</b> |

As at 31 December 2011, the balance of loans and advances past due but not impaired which were covered by collateral was RMB2,489 million. The fair value of collateral held against these loans and advances was amounted to RMB3,282 million (2010: RMB1,346 million).

The above collateral mainly includes land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

##### c Impaired loans

|                                 | Group          |                | Bank           |                |
|---------------------------------|----------------|----------------|----------------|----------------|
|                                 | 2011           | 2010           | 2011           | 2010           |
| Corporate loans and advances    | 6,541          | 6,538          | 6,541          | 6,538          |
| Personal loans and advances     | 998            | 801            | 996            | 801            |
| <b>Total</b>                    | <b>7,539</b>   | <b>7,339</b>   | <b>7,537</b>   | <b>7,339</b>   |
| % of total loans and advances   | 0.63%          | 0.69%          | 0.63%          | 0.69%          |
| Allowance for impairment losses |                |                |                |                |
| — Corporate loans and advances  | (3,283)        | (3,583)        | (3,283)        | (3,583)        |
| — Personal loans and advances   | (620)          | (614)          | (618)          | (614)          |
| <b>Total</b>                    | <b>(3,903)</b> | <b>(4,197)</b> | <b>(3,901)</b> | <b>(4,197)</b> |

All of the secured personal loans past due for more than 90 days as well as unsecured personal loans and guaranteed personal loans (excluding credit card and Shang Dai Tong loans) past due for more than 30 days are identified as impaired loans. All of the secured Shang Dai Tong loans past due for more than 180 days, guaranteed Shang Dai Tong loans past due for more than 90 days, and unsecured Shang Dai Tong loans past due for more than 30 days are identified as impaired loans. All the credit card past due for more than 90 days are identified as impaired loans by the Group.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (v) Loans and advances to customers (Continued)

##### c *Impaired loans (Continued)*

Impaired loans and advances by type of collateral:

|  | Group        |              | Bank         |              |
|--|--------------|--------------|--------------|--------------|
|  | 2011         | 2010         | 2011         | 2010         |
| Unsecured loans                                      | 718          | 636          | 718          | 636          |
| Guaranteed loans                                     | 2,044        | 2,120        | 2,043        | 2,120        |
| Loans secured by                                     |              |              |              |              |
| — tangible assets other than monetary assets         | 4,626        | 4,049        | 4,625        | 4,049        |
| — monetary assets                                    | 151          | 534          | 151          | 534          |
| <b>Total</b>   | <b>7,539</b> | <b>7,339</b> | <b>7,537</b> | <b>7,339</b> |
| Fair value of collateral held against impaired loans | 4,215        | 3,644        | 4,214        | 3,644        |

The above collateral mainly includes land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

##### d *Loans and advances rescheduled*

Rescheduling is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, reschedule credit terms generally as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or assumption of the loans by a borrower with better repayment ability. Rescheduled loans amounted to RMB1,777 million as at 31 December 2011 (2010: RMB2,412 million).

Among impaired loans and advances, rescheduled loans and advances which were not past due or past due for no more than 90 days are as follows:

|                                 | Group and Bank |       |
|---------------------------------|----------------|-------|
|                                 | 2011           | 2010  |
| Loans and advances to customers | 70             | 33    |
| % of total loans and advances   | 0.01%          | 0.00% |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (vi) Amounts due from banks and other financial institutions

Amount due from banks and other financial institutions includes balances with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

#### a Neither past due nor impaired

Balances with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are neither past due nor impaired.

Distribution of amounts due from banks and other financial institutions neither overdue nor impaired by credit rating is listed as follows:

|                | Group          |                | Bank           |                |
|----------------|----------------|----------------|----------------|----------------|
|                | 2011           | 2010           | 2011           | 2010           |
| Grade A to AAA | 303,182        | 217,508        | 303,182        | 216,964        |
| Grade B to BBB | 75,237         | 22,357         | 73,091         | 22,296         |
| Unrated        | 32,684         | 34,982         | 32,684         | 34,982         |
| <b>Total</b>   | <b>411,103</b> | <b>274,847</b> | <b>408,957</b> | <b>274,242</b> |

Amounts neither past due nor impaired are analysed above according to the Group and the Bank's internal credit rating. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of domestic banks and non-bank financial institutions for which the Group and the Bank have not assigned an internal credit rating.

#### (vii) Finance lease receivables

|   | Group         |               |
|---|---------------|---------------|
|   | 2011          | 2010          |
| Neither past due nor impaired   |               |               |
| — Pass  | 45,395        | 29,071        |
| — Special mention   | 324           | 645           |
| Gross balance   | 45,719        | 29,716        |
| Less: allowance for impairment loss — collective assessment (Note 28) | (824)         | (428)         |
| <b>Net balance</b>  | <b>44,895</b> | <b>29,288</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (viii) Debt securities

##### *RMB-denominated debt securities*

##### Group

|                               | Trading<br>financial<br>assets | Available-<br>for-sale<br>securities | 2011<br>Held-to-<br>maturity<br>securities | Loans and<br>receivables | Total   |
|-------------------------------|--------------------------------|--------------------------------------|--|--------------------------|---------|
| Neither past due nor impaired | 20,414                         | 63,572                               | 117,610                                    | 8,319                    | 209,915 |
| Total                         | 20,414                         | 63,572                               | 117,610                                    | 8,319                    | 209,915 |

|                               | Trading<br>financial<br>assets | Available-<br>for-sale<br>securities | 2010<br>Held-to-<br>maturity<br>securities | Loans and<br>receivables | Total   |
|-------------------------------|--------------------------------|--------------------------------------|--|--------------------------|---------|
| Neither past due nor impaired | 5,994                          | 31,621                               | 128,254                                    | 11,117                   | 176,986 |
| Total                         | 5,994                          | 31,621                               | 128,254                                    | 11,117                   | 176,986 |

##### Bank

|                               | Trading<br>financial<br>assets | Available-<br>for-sale<br>securities | 2011<br>Held-to-<br>maturity<br>securities | Loans and<br>receivables | Total   |
|-------------------------------|--------------------------------|--------------------------------------|--|--------------------------|---------|
| Neither past due nor impaired | 20,414                         | 63,542                               | 117,610                                    | 8,319                    | 209,885 |
| Total                         | 20,414                         | 63,542                               | 117,610                                    | 8,319                    | 209,885 |

|                               | Trading<br>financial<br>assets | Available-<br>for-sale<br>securities | 2010<br>Held-to-<br>maturity<br>securities | Loans and<br>receivables | Total   |
|-------------------------------|--------------------------------|--------------------------------------|--|--------------------------|---------|
| Neither past due nor impaired | 5,994                          | 31,621                               | 127,879                                    | 11,117                   | 176,611 |
| Total                         | 5,994                          | 31,621                               | 127,879                                    | 11,117                   | 176,611 |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (viii) Debt securities (Continued)

##### *RMB-denominated debt securities (Continued)*

The following tables show Standard & Poor's ratings on foreign currency debt securities.

#### Group and Bank

|               | 2011                     |                               |                             | Total        |
|---------------|--------------------------|-------------------------------|-----------------------------|--------------|
|               | Trading financial assets | Available-for-sale securities | Held-to-maturity securities |              |
| AA-to AA+     | 9                        | 722                           | —                           | 731          |
| Lower than A- | —                        | 116                           | —                           | 116          |
| Unrated       | —                        | 308                           | 276                         | 584          |
| <b>Total</b>  | <b>9</b>                 | <b>1,146</b>                  | <b>276</b>                  | <b>1,431</b> |

|               | 2010                     |                               |                             | Total        |
|---------------|--------------------------|-------------------------------|-----------------------------|--------------|
|               | Trading financial assets | Available-for-sale securities | Held-to-maturity securities |              |
| AAA           | 30                       | 492                           | —                           | 522          |
| AA-to AA+     | —                        | 36                            | 289                         | 325          |
| A-to A+       | —                        | 2,456                         | 67                          | 2,523        |
| Lower than A- | —                        | 230                           | —                           | 230          |
| Unrated       | —                        | 232                           | —                           | 232          |
| <b>Total</b>  | <b>30</b>                | <b>3,446</b>                  | <b>356</b>                  | <b>3,832</b> |

The Group's available-for-sale and held-to-maturity debt securities are individually assessed for impairment. The Group's impaired debt securities are all foreign currency debt securities, which were valued at RMB318 million as at 31 December 2011 (2010: RMB325 million), incurring an impairment loss of RMB300 million (2010: RMB315 million).

#### (ix) Credit risk concentration of financial assets

Credit risk increases when counterparties are concentrated in same industries or geographical regions. The Group conducts its credit business predominantly within mainland China, with major customers concentrated in a number of key industries. In China, different regions and different industries have their own unique characteristics in economic development. This has consequently exposed the Group's operations to different credit risks.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (ix) Credit risk concentration of financial assets (Continued)

##### a Geographical concentration

Financial assets other than securities (by business units' location)

#### Group

|  | 2011           |                |                |                                | Total            |
|--|----------------|----------------|----------------|--------------------------------|------------------|
|  | Northern China | Eastern China  | Southern China | Overseas and other PRC regions |                  |
| Balances with central bank                             | 301,305        | 15,341         | 3,662          | 7,322                          | 327,630          |
| Balances with banks and other financial institutions   | 24,374         | 121,529        | 63,103         | 23,330                         | 232,336          |
| Placements with banks and other financial institutions | 36,345         | 1,200          | —              | 200                            | 37,745           |
| Financial assets held under resale agreements          | 43,334         | 35,151         | 16,552         | 45,985                         | 141,022          |
| Gross loans and advances to customers                  | 335,145        | 446,079        | 130,601        | 293,396                        | 1,205,221        |
| Less: allowance for impairment losses                  | (8,359)        | (9,975)        | (2,728)        | (5,874)                        | (26,936)         |
| Finance lease receivables                              | 44,895         | —              | —              | —                              | 44,895           |
| Other financial assets                                 | 13,800         | 3,533          | 1,176          | 1,998                          | 20,507           |
| <b>Total</b>   | <b>790,839</b> | <b>612,858</b> | <b>212,366</b> | <b>366,357</b>                 | <b>1,982,420</b> |

|  | 2010           |                |                |                                | Total            |
|--|----------------|----------------|----------------|--------------------------------|------------------|
|  | Northern China | Eastern China  | Southern China | Overseas and other PRC regions |                  |
| Balances with central bank                             | 244,236        | 10,950         | 2,688          | 4,364                          | 262,238          |
| Balances with banks and other financial institutions   | 22,279         | 60,787         | 22,385         | 20,011                         | 125,462          |
| Placements with banks and other financial institutions | 34,953         | 1,000          | —              | 500                            | 36,453           |
| Financial assets held under resale agreements          | 5,788          | 55,122         | 36,848         | 15,174                         | 112,932          |
| Gross loans and advances to customers                  | 307,220        | 400,678        | 113,682        | 235,991                        | 1,057,571        |
| Less: allowance for impairment losses                  | (8,748)        | (6,127)        | (1,828)        | (3,145)                        | (19,848)         |
| Finance lease receivables                              | 29,288         | —              | —              | —                              | 29,288           |
| Other financial assets                                 | 7,088          | 2,411          | 1,201          | 2,996                          | 13,696           |
| <b>Total</b>   | <b>642,104</b> | <b>524,821</b> | <b>174,976</b> | <b>275,891</b>                 | <b>1,617,792</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (ix) Credit risk concentration of financial assets (Continued)

##### a Geographical concentration (Continued)

Financial assets other than securities (by business units' location) (Continued)

#### Bank

|  | 2011           |                |                |                                | Total            |
|--|----------------|----------------|----------------|--------------------------------|------------------|
|  | Northern China | Eastern China  | Southern China | Overseas and other PRC regions |                  |
| Balances with central bank                             | 300,957        | 14,258         | 3,629          | 6,952                          | 325,796          |
| Balances with banks and other financial institutions   | 22,964         | 121,207        | 62,933         | 23,086                         | 230,190          |
| Placements with banks and other financial institutions | 36,345         | 1,200          | —              | 200                            | 37,745           |
| Financial assets held under resale agreements          | 43,334         | 35,151         | 16,552         | 45,985                         | 141,022          |
| Gross loans and advances to customers                  | 335,145        | 441,411        | 130,461        | 291,338                        | 1,198,355        |
| Less: allowance for impairment losses                  | (8,361)        | (9,912)        | (2,726)        | (5,840)                        | (26,839)         |
| Other financial assets                                 | 8,094          | 3,490          | 1,156          | 1,962                          | 14,702           |
| <b>Total</b>   | <b>738,478</b> | <b>606,805</b> | <b>212,005</b> | <b>363,683</b>                 | <b>1,920,971</b> |

|  | 2010           |                |                |                                | Total            |
|--|----------------|----------------|----------------|--------------------------------|------------------|
|  | Northern China | Eastern China  | Southern China | Overseas and other PRC regions |                  |
| Balances with central bank                             | 244,236        | 10,491         | 2,688          | 4,213                          | 261,628          |
| Balances with banks and other financial institutions   | 23,160         | 59,836         | 22,385         | 19,476                         | 124,857          |
| Placements with banks and other financial institutions | 34,953         | 1,000          | —              | 500                            | 36,453           |
| Financial assets held under resale agreements          | 5,788          | 55,122         | 36,848         | 15,174                         | 112,932          |
| Gross loans and advances to customers                  | 307,220        | 398,211        | 113,682        | 234,959                        | 1,054,072        |
| Less: allowance for impairment losses                  | (8,748)        | (6,112)        | (1,828)        | (3,124)                        | (19,812)         |
| Other financial assets                                 | 4,097          | 1,704          | 888            | 1,277                          | 7,966            |
| <b>Total</b>   | <b>610,706</b> | <b>520,252</b> | <b>174,663</b> | <b>272,475</b>                 | <b>1,578,096</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (ix) Credit risk concentration of financial assets (Continued)

##### a Geographical concentration (Continued)

Financial assets — securities (by issuers' location)

#### Group

|                                    | 2011              |                  |            |            | Total          |
|------------------------------------|-------------------|------------------|------------|------------|----------------|
|                                    | Mainland<br>China | North<br>America | Europe     | Others     |                |
| Trading financial assets           | 20,414            | 9                | —          | —          | 20,423         |
| Available-for-sale debt securities | 64,613            | 18               | 87         | —          | 64,718         |
| Held-to-maturity investments       | 117,610           | —                | 142        | 134        | 117,886        |
| Loans and receivables              | 8,319             | —                | —          | —          | 8,319          |
| <b>Total</b>                       | <b>210,956</b>    | <b>27</b>        | <b>229</b> | <b>134</b> | <b>211,346</b> |

|                                    | 2010              |                  |            |            | Total          |
|------------------------------------|-------------------|------------------|------------|------------|----------------|
|                                    | Mainland<br>China | North<br>America | Europe     | Others     |                |
| Trading financial assets           | 5,994             | 30               | —          | —          | 6,024          |
| Available-for-sale debt securities | 34,227            | 586              | 224        | 30         | 35,067         |
| Held-to-maturity investments       | 128,320           | —                | 149        | 141        | 128,610        |
| Loans and receivables              | 11,117            | —                | —          | —          | 11,117         |
| <b>Total</b>                       | <b>179,658</b>    | <b>616</b>       | <b>373</b> | <b>171</b> | <b>180,818</b> |

#### Bank

|                                    | 2011              |                  |            |            | Total          |
|------------------------------------|-------------------|------------------|------------|------------|----------------|
|                                    | Mainland<br>China | North<br>America | Europe     | Others     |                |
| Trading financial assets           | 20,414            | 9                | —          | —          | 20,423         |
| Available-for-sale debt securities | 64,583            | 18               | 87         | —          | 64,688         |
| Held-to-maturity investments       | 117,610           | —                | 142        | 134        | 117,886        |
| Loans and receivables              | 8,319             | —                | —          | —          | 8,319          |
| <b>Total</b>                       | <b>210,926</b>    | <b>27</b>        | <b>229</b> | <b>134</b> | <b>211,316</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (ix) Credit risk concentration of financial assets (Continued)

##### a Geographical concentration (Continued)

Financial assets — securities (by issuers' location) (Continued)

##### Bank (Continued)

|                                    | 2010           |               |            |            | Total          |
|------------------------------------|----------------|---------------|------------|------------|----------------|
|                                    | Mainland China | North America | Europe     | Others     |                |
| Trading financial assets           | 5,994          | 30            | —          | —          | 6,024          |
| Available-for-sale debt securities | 34,227         | 586           | 224        | 30         | 35,067         |
| Held-to-maturity investments       | 127,945        | —             | 149        | 141        | 128,235        |
| Loans and receivables              | 11,117         | —             | —          | —          | 11,117         |
| <b>Total</b>                       | <b>179,283</b> | <b>616</b>    | <b>373</b> | <b>171</b> | <b>180,443</b> |

##### b Industry concentration

##### Group

|  | 2011                              |                        |                |                |                |                | Total            |
|--|-----------------------------------|------------------------|----------------|----------------|----------------|----------------|------------------|
|  | Governments and quasi-governments | Financial institutions | Manufacturing  | Real estate    | Others         | Individuals    |                  |
| Balances with central bank                             | 327,630                           | —                      | —              | —              | —              | —              | 327,630          |
| Balances with banks and other financial institutions   | —                                 | 232,336                | —              | —              | —              | —              | 232,336          |
| Placements with banks and other financial institutions | —                                 | 37,745                 | —              | —              | —              | —              | 37,745           |
| Financial assets held under resale agreements          | —                                 | 141,022                | —              | —              | —              | —              | 141,022          |
| Corporate loans and advances                           | —                                 | 19,090                 | 181,822        | 126,401        | 494,035        | —              | 821,348          |
| Including balance secured by collateral                | —                                 | 15,361                 | 70,254         | 112,453        | 236,444        | —              | 434,512          |
| Personal loans and advances                            | —                                 | —                      | —              | —              | —              | 356,937        | 356,937          |
| Including balance secured by collateral                | —                                 | —                      | —              | —              | —              | 209,063        | 209,063          |
| Investment securities — debt securities                | 144,474                           | 8,609                  | 21,681         | 1,553          | 14,606         | —              | 190,923          |
| Finance lease receivables                              | —                                 | —                      | 31,064         | 3,449          | 10,382         | —              | 44,895           |
| Other financial assets                                 | 15,903                            | 1,642                  | 8,273          | 3,197          | 10,820         | 1,095          | 40,930           |
| <b>Total</b>   | <b>488,007</b>                    | <b>440,444</b>         | <b>242,840</b> | <b>134,600</b> | <b>529,843</b> | <b>358,032</b> | <b>2,193,766</b> |



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (ix) Credit risk concentration of financial assets (Continued)

##### b Industry concentration (Continued)

##### Group (Continued)

|  | 2010                              |                        |                |                |                |                | Total            |
|--|-----------------------------------|------------------------|----------------|----------------|----------------|----------------|------------------|
|  | Governments and quasi-governments | Financial institutions | Manufacturing  | Real estate    | Others         | Individuals    |                  |
| Balances with central bank                             | 262,238                           | —                      | —              | —              | —              | —              | 262,238          |
| Balances with banks and other financial institutions   | —                                 | 125,462                | —              | —              | —              | —              | 125,462          |
| Placements with banks and other financial institutions | —                                 | 36,453                 | —              | —              | —              | —              | 36,453           |
| Financial assets held under resale agreements          | —                                 | 112,932                | —              | —              | —              | —              | 112,932          |
| Corporate loans and advances                           | —                                 | 17,995                 | 139,314        | 126,147        | 478,176        | —              | 761,632          |
| Including balance secured by collateral                | —                                 | 13,534                 | 69,725         | 106,943        | 179,540        | —              | 369,742          |
| Personal loans and advances                            | —                                 | —                      | —              | —              | —              | 276,091        | 276,091          |
| Including balance secured by collateral                | —                                 | —                      | —              | —              | —              | 204,036        | 204,036          |
| Investment securities — debt securities                | 130,408                           | 8,206                  | 15,239         | 1,301          | 19,640         | —              | 174,794          |
| Finance lease receivables                              | —                                 | —                      | 13,681         | 2,910          | 12,697         | —              | 29,288           |
| Other financial assets                                 | 4,823                             | 450                    | 2,578          | 1,679          | 10,190         | —              | 19,720           |
| <b>Total</b>   | <b>397,469</b>                    | <b>301,498</b>         | <b>170,812</b> | <b>132,037</b> | <b>520,703</b> | <b>276,091</b> | <b>1,798,610</b> |

##### Bank

|  | 2011                              |                        |                |                |                |                | Total            |
|--|-----------------------------------|------------------------|----------------|----------------|----------------|----------------|------------------|
|  | Governments and quasi-governments | Financial institutions | Manufacturing  | Real estate    | Others         | Individuals    |                  |
| Balances with central bank                             | 325,796                           | —                      | —              | —              | —              | —              | 325,796          |
| Balances with banks and other financial institutions   | —                                 | 230,190                | —              | —              | —              | —              | 230,190          |
| Placements with banks and other financial institutions | —                                 | 37,745                 | —              | —              | —              | —              | 37,745           |
| Financial assets held under resale agreements          | —                                 | 141,022                | —              | —              | —              | —              | 141,022          |
| Corporate loans and advances                           | —                                 | 18,815                 | 179,913        | 126,401        | 492,063        | —              | 817,192          |
| Including balance secured by collateral                | —                                 | 15,206                 | 69,335         | 112,453        | 235,525        | —              | 432,519          |
| Personal loans and advances                            | —                                 | —                      | —              | —              | —              | 354,324        | 354,324          |
| Including balance secured by collateral                | —                                 | —                      | —              | —              | —              | 208,446        | 208,446          |
| Investment securities — debt securities                | 144,474                           | 8,579                  | 21,681         | 1,553          | 14,606         | —              | 190,893          |
| Other financial assets                                 | 15,870                            | 1,625                  | 5,663          | 2,584          | 8,306          | 1,077          | 35,125           |
| <b>Total</b>   | <b>486,140</b>                    | <b>437,976</b>         | <b>207,257</b> | <b>130,538</b> | <b>514,975</b> | <b>355,401</b> | <b>2,132,287</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (2) Credit risk (Continued)

#### (ix) Credit risk concentration of financial assets (Continued)

##### b Industry concentration (Continued)

##### Bank (Continued)

|   | 2010                                     |                           |                |                |                |                | Total            |
|---|--|---------------------------|----------------|----------------|----------------|----------------|------------------|
|   | Governments<br>and quasi-<br>governments | Financial<br>institutions | Manufacturing  | Real estate    | Others         | Individuals    |                  |
| Balances with central bank                                | 261,628                                  | —                         | —              | —              | —              | —              | 261,628          |
| Balances with banks and<br>other financial institutions   | —  | 124,857                   | —              | —              | —              | —              | 124,857          |
| Placements with banks and<br>other financial institutions | —  | 36,453                    | —              | —              | —              | —              | 36,453           |
| Financial assets held under<br>resale agreements          | —  | 112,932                   | —              | —              | —              | —              | 112,932          |
| Corporate loans and advances                              | —  | 17,995                    | 138,258        | 126,139        | 477,046        | —              | 759,438          |
| Including balance secured<br>by collateral                | —  | 13,534                    | 69,725         | 106,943        | 179,540        | —              | 369,742          |
| Personal loans and advances                               | —  | —                         | —              | —              | —              | 274,822        | 274,822          |
| Including balance secured<br>by collateral                | —  | —                         | —              | —              | —              | 203,656        | 203,656          |
| Investment securities —<br>debt securities                | 130,408                                  | 7,936                     | 15,239         | 1,301          | 19,535         | —              | 174,419          |
| Other financial assets                                    | 4,823                                    | 450                       | 564            | 531            | 7,622          | —              | 13,990           |
| <b>Total</b>  | <b>396,859</b>                           | <b>300,623</b>            | <b>154,061</b> | <b>127,971</b> | <b>504,203</b> | <b>274,822</b> | <b>1,758,539</b> |

### (3) Market risk

The Group is exposed to market risk, which is the risk of loss to its on- and off-balance sheet businesses caused by unfavourable changes in market prices (interest rates, exchange rates and stock prices). Market risk includes interest rate risk, exchange rate (including gold bullion) risk, equity price risk and commodity price risk, arising from adverse movements in interest rates, exchange rates, stock prices and commodity price, respectively.

The market risk faced by the Group mainly arises from the Bank's business activities. The Bank's subsidiaries are exposed to an insignificant level of market risk. The Bank and its subsidiaries independently manage their own market risk.

The Bank divides its market risk exposures into either trading or non-trading portfolios. Trading portfolios include those positions arising from transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios largely consist of held-to-maturity and available-for-sale securities held by the Bank and market risk exposures in its loan and advance accounts.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

Currently, the Asset and Liability Management Department is responsible for monitoring and controlling the market risk of non-trading accounts across the Bank. The Financial Market Strategic Business Units (SBUs) is responsible for market risk management of trading accounts and department-specific non-trading accounts. Also, the Bank has established the practice of regular reporting to senior management on market risks, including the monitoring and analysis by the two departments of market risk changes and exposure limit execution.

The Financial and Planning Department of Minsheng Leasing is responsible for monitoring and controlling market risks on fund positions, while its Capital Market Department is responsible for managing department-specific market risk.

#### (i) Market risk measurement techniques

As part of market risk management, the Group adopts various strategies to mitigate risks. The Bank also enters into interest rate swaps to match interest rate risk associated with fixed-rate long-term debt securities and loans measured at fair value.

The techniques in measuring and controlling market risk are as follows:

The primary techniques applied by Financial Market Department of the Bank in measuring and controlling trading and non-trading market risk are mainly net position exposure analyses; stop-loss approaches; sensitivity analyses of interest rates and exchange rates; stress testing and scenario analyses. In response to market conditions and leveraging available technologies, the Group has gradually used the value at risk (VaR) method to measure market risk.

The Bank applies sensitivity analyses to estimate interest rate and exchange rate risks arising from trading accounts and non-trading portfolios. This means to periodically calculate gaps between interest-earning assets and interest-bearing liabilities that would reach maturity or be subject to repricing during a certain period. Then, the Bank uses the gap data to carry out sensitivity analyses against movements of benchmark and market interest rates and foreign exchange rates, in order to guide adjustment of repricing and maturity structures of interest-earning assets and interest-bearing liabilities. The Bank has set up a reporting system under which summarised sensitivity analyses are reported regularly to senior management (for example, the Risk Management Committee) for review.

#### (ii) Currency risk

The Group is exposed to exchange rate risk arising from prevailing foreign currency exchange rate fluctuations with impact on its foreign exchange positions and cash flows.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

#### (ii) Currency risk (Continued)

During the relevant period, as the Group's subsidiaries did not engage in foreign exchange operations, the Group's currency risk is concentrated in the Bank.

The Group's principal strategy in controlling currency risk is to substantially match its assets and liabilities in each currency and to maintain currency risk within established limits. The Bank has set exposure limits according to guidelines established by the Risk Management Committee, regulatory requirements, and management's assessment of current market conditions. The Bank also reasonably manages its foreign capital sources and use of foreign currencies to minimise potential currency mismatches. The Financial Market SBUs sets exposure and stop-loss limits by business nature and trading authority for foreign exchange risk within the scope of its departmental operations, and applies authority limits in managing foreign exchange risk.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

#### (ii) Currency risk (Continued)

The following tables present the Group's and the Bank's foreign exchange risk exposures as at the end of the reporting period. The carrying values of financial assets and liabilities denominated in foreign currencies have been converted into RMB.

| Group   | 2011             |               |                |              | Total            |
|---|------------------|---------------|----------------|--------------|------------------|
|   | RMB              | USD           | HKD            | Others       |                  |
| Assets:   |                  |               |                |              |                  |
| Cash and balances with central bank                                 | 330,377          | 1,917         | 338            | 173          | 332,805          |
| Balances with banks and other financial institutions                | 219,637          | 8,314         | 1,318          | 3,067        | 232,336          |
| Placements with banks and other financial institutions              | 37,745           | —             | —              | —            | 37,745           |
| Financial assets held under resale agreements                       | 141,022          | —             | —              | —            | 141,022          |
| Loans and advances to customers                                     | 1,161,118        | 16,654        | 6              | 507          | 1,178,285        |
| Investment securities   | 189,640          | 1,327         | —              | 95           | 191,062          |
| Finance lease receivables   | 44,895           | —             | —              | —            | 44,895           |
| Other assets  | 64,235           | 6,042         | 10             | 627          | 70,914           |
| <b>Total assets</b>   | <b>2,188,669</b> | <b>34,254</b> | <b>1,672</b>   | <b>4,469</b> | <b>2,229,064</b> |
| Liabilities:  |                  |               |                |              |                  |
| Deposits from customers   | 1,615,673        | 21,692        | 3,721          | 3,652        | 1,644,738        |
| Deposits and placements from banks and other financial institutions | 272,707          | 6,544         | 52             | 38           | 279,341          |
| Financial assets sold under repurchase agreements                   | 53,262           | 439           | —              | 93           | 53,794           |
| Borrowings from banks and other financial institutions              | 40,825           | —             | —              | —            | 40,825           |
| Debt securities issued  | 31,030           | —             | —              | —            | 31,030           |
| Other liabilities   | 41,988           | 1,506         | 369            | 1,363        | 45,226           |
| <b>Total liabilities</b>  | <b>2,055,485</b> | <b>30,181</b> | <b>4,142</b>   | <b>5,146</b> | <b>2,094,954</b> |
| <b>Net position</b>   | <b>133,184</b>   | <b>4,073</b>  | <b>(2,470)</b> | <b>(677)</b> | <b>134,110</b>   |
| Foreign currency derivatives  | 390              | (3,813)       | 2,455          | 796          | (172)            |
| Off-balance sheet credit commitments                                | 611,601          | 53,634        | 1,524          | 3,334        | 670,093          |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

#### (ii) Currency risk (Continued)

##### Group (Continued)

|   | 2010             |               |              |              | Total            |
|---|------------------|---------------|--------------|--------------|------------------|
|   | RMB              | USD           | HKD          | Others       |                  |
| Assets:   |                  |               |              |              |                  |
| Cash and balances with central bank                                 | 265,403          | 1,178         | 118          | 136          | 266,835          |
| Balances with banks and other financial institutions                | 117,987          | 5,234         | 345          | 1,896        | 125,462          |
| Placements with banks and other financial institutions              | 35,592           | 861           | —            | —            | 36,453           |
| Financial assets held under resale agreements                       | 112,932          | —             | —            | —            | 112,932          |
| Loans and advances to customers                                     | 1,025,273        | 12,170        | 1            | 279          | 1,037,723        |
| Investment securities   | 171,117          | 3,698         | —            | 104          | 174,919          |
| Finance lease receivables   | 29,288           | —             | —            | —            | 29,288           |
| Other assets  | 39,451           | 338           | 10           | 326          | 40,125           |
| <b>Total assets</b>   | <b>1,797,043</b> | <b>23,479</b> | <b>474</b>   | <b>2,741</b> | <b>1,823,737</b> |
| Liabilities:  |                  |               |              |              |                  |
| Deposits from customers   | 1,400,214        | 14,103        | 870          | 2,690        | 1,417,877        |
| Deposits and placements from banks and other financial institutions | 193,595          | 7,140         | 454          | 32           | 201,221          |
| Financial assets sold under repurchase agreements                   | 21,476           | 2,397         | —            | —            | 23,873           |
| Borrowings from banks and other financial institutions              | 25,211           | —             | —            | —            | 25,211           |
| Debt securities issued  | 21,048           | —             | —            | —            | 21,048           |
| Other liabilities   | 29,250           | —             | —            | —            | 29,250           |
| <b>Total liabilities</b>  | <b>1,690,794</b> | <b>23,640</b> | <b>1,324</b> | <b>2,722</b> | <b>1,718,480</b> |
| <b>Net position</b>   | <b>106,249</b>   | <b>(161)</b>  | <b>(850)</b> | <b>19</b>    | <b>105,257</b>   |
| Foreign currency derivatives  | (41)             | 163           | 1            | (54)         | 69               |
| Off-balance sheet credit commitments                                | 387,737          | 46,627        | 70           | 4,739        | 439,173          |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

#### (ii) Currency risk (Continued)

##### Bank

|   | 2011             |               |                |              | Total            |
|---|------------------|---------------|----------------|--------------|------------------|
|   | RMB              | USD           | HKD            | Others       |                  |
| Assets:   |                  |               |                |              |                  |
| Cash and balances with central bank                                 | 328,470          | 1,917         | 338            | 173          | 330,898          |
| Balances with banks and other financial institutions                | 217,491          | 8,314         | 1,318          | 3,067        | 230,190          |
| Placements with banks and other financial institutions              | 37,745           | —             | —              | —            | 37,745           |
| Financial assets held under resale agreements                       | 141,022          | —             | —              | —            | 141,022          |
| Loans and advances to customers                                     | 1,154,349        | 16,654        | 6              | 507          | 1,171,516        |
| Investment securities   | 189,610          | 1,327         | —              | 95           | 191,032          |
| Other assets  | 53,378           | 6,042         | 10             | 627          | 60,057           |
| <b>Total assets</b>   | <b>2,122,065</b> | <b>34,254</b> | <b>1,672</b>   | <b>4,469</b> | <b>2,162,460</b> |
| Liabilities:  |                  |               |                |              |                  |
| Deposits from customers   | 1,605,647        | 21,692        | 3,721          | 3,652        | 1,634,712        |
| Deposits and placements from banks and other financial institutions | 275,803          | 6,544         | 52             | 38           | 282,437          |
| Financial assets sold under repurchase agreements                   | 46,859           | 439           | —              | 93           | 47,391           |
| Debt securities issued  | 31,030           | —             | —              | —            | 31,030           |
| Other liabilities   | 35,151           | 1,506         | 369            | 1,363        | 38,389           |
| <b>Total liabilities</b>  | <b>1,994,490</b> | <b>30,181</b> | <b>4,142</b>   | <b>5,146</b> | <b>2,033,959</b> |
| <b>Net position</b>   | <b>127,575</b>   | <b>4,073</b>  | <b>(2,470)</b> | <b>(677)</b> | <b>128,501</b>   |
| Foreign currency derivatives  | 390              | (3,813)       | 2,455          | 796          | (172)            |
| Off-balance sheet credit commitments                                | 608,323          | 53,634        | 1,524          | 3,334        | 666,815          |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

#### (ii) Currency risk (Continued)

##### Bank (Continued)

|   | 2010             |               |              |              | Total            |
|---|------------------|---------------|--------------|--------------|------------------|
|   | RMB              | USD           | HKD          | Others       |                  |
| Assets:   |                  |               |              |              |                  |
| Cash and balances with central bank                                 | 264,192          | 1,178         | 118          | 136          | 265,624          |
| Balances with banks and other financial institutions                | 117,382          | 5,234         | 345          | 1,896        | 124,857          |
| Placements with banks and other financial institutions              | 35,592           | 861           | —            | —            | 36,453           |
| Financial assets held under resale agreements                       | 112,932          | —             | —            | —            | 112,932          |
| Loans and advances to customers                                     | 1,021,810        | 12,170        | 1            | 279          | 1,034,260        |
| Investment securities   | 170,742          | 3,698         | —            | 104          | 174,544          |
| Other assets  | 30,966           | 338           | 10           | 326          | 31,640           |
| <b>Total assets</b>   | <b>1,753,616</b> | <b>23,479</b> | <b>474</b>   | <b>2,741</b> | <b>1,780,310</b> |
| Liabilities:  |                  |               |              |              |                  |
| Deposits from customers   | 1,395,000        | 14,103        | 870          | 2,690        | 1,412,663        |
| Deposits and placements from banks and other financial institutions | 194,734          | 7,140         | 454          | 32           | 202,360          |
| Financial assets sold under repurchase agreements                   | 12,850           | 2,397         | —            | —            | 15,247           |
| Debt securities issued  | 21,048           | —             | —            | —            | 21,048           |
| Other liabilities   | 25,433           | —             | —            | —            | 25,433           |
| <b>Total liabilities</b>  | <b>1,649,065</b> | <b>23,640</b> | <b>1,324</b> | <b>2,722</b> | <b>1,676,751</b> |
| <b>Net position</b>   | <b>104,551</b>   | <b>(161)</b>  | <b>(850)</b> | <b>19</b>    | <b>103,559</b>   |
| Foreign currency derivatives  | (41)             | 163           | 1            | (54)         | 69               |
| Off-balance sheet credit commitments                                | 385,267          | 46,627        | 70           | 4,739        | 436,703          |

The Group conducts sensitivity analysis on the net foreign currency position, to identify the impact to the income statement of potential movements in foreign currency exchange rates against the RMB. As at 31 December 2011, assuming other variables remain unchanged, an appreciation of one hundred basis points of the US dollar against the RMB would increase both the Group's net profit and equity by RMB1 million (2010: decrease by RMB1 million); a depreciation of one hundred basis points of the US dollar against the RMB would decrease both the Group's net profit and equity by RMB1 million (2010: increase by RMB1 million).



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

#### (ii) Currency risk (Continued)

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities that makes the following assumptions:

- a The sensitivity of each type of exchange rate refers to the exchange gain or loss caused by a fluctuation in the absolute value of closing foreign currency rate by one hundred basis points against the RMB's average rate on the reporting date;
- b The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement from the current reporting date to the next reporting date;
- c The fluctuation of exchange rates for all foreign currencies represents the fluctuation of exchange rates in US dollars and other foreign currencies against RMB in the same direction simultaneously. Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars, other foreign currencies are converted into US dollars through sensitivity analysis;
- d The foreign exchange exposures calculated includes spot and forward foreign exchange exposures and swaps;
- e Other variables (including interest rates) remained unchanged; and
- f The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by the increase or decrease in exchange rates might vary from the estimated results of this sensitivity analysis.

#### (iii) Interest rate risk

Cash flow interest rate risk arises from future fluctuating cash flows of a financial instrument due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks arising from changes in prevailing market interest rates.

Interest margins may increase as a result of such changes, but may reduce or suffer losses in the event that unexpected movements arise. The Group operates its business predominantly in mainland China under the interest rate scheme regulated by the PBOC. As the PBOC has historically adjusted its benchmark interest rates for interest-bearing loans and deposits in the same direction (though not necessarily by the same quantum), the Group has primarily managed its exposure to interest rate risk through maturity profile management for its loans and deposits.

As required by the PBOC, interest rates on loans denominated in RMB could float based on the PBOC benchmark interest rates. Interest rates on discounted bills denominated in RMB are determined according to market prices. However, such interest rates cannot be set below the PBOC interest rates for rediscounted bills. Interest rates on deposits denominated in RMB cannot be higher than the PBOC benchmark interest rates.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

#### (iii) Interest rate risk (Continued)

The Group closely monitors trends of interest rate changes for both RMB and foreign currencies, follows market interest rate changes, performs proper scenario analyses, and adjusts interest rates of deposits and loans in both RMB and foreign currencies to manage interest rate risk.

The following tables present the Group's and the Bank's exposure to interest rate risk, indicating net carrying amounts of financial instruments based on their contractual repricing dates (or maturity dates whichever are earlier).

#### Group

|   | 2011                  |                   |                 |                      |                             | Total            |
|---|-----------------------|-------------------|-----------------|----------------------|-----------------------------|------------------|
|   | Less than<br>3 months | 3 to 12<br>months | 1 to 5<br>years | More than<br>5 years | Non-<br>interest<br>bearing |                  |
| <b>Assets:</b>  |                       |                   |                 |                      |                             |                  |
| Cash and balances with central bank                                       | 327,630               | —                 | —               | —                    | 5,175                       | 332,805          |
| Balances with banks and<br>other financial institutions                   | 225,546               | 6,390             | 400             | —                    | —                           | 232,336          |
| Placements with banks and<br>other financial institutions                 | —                     | 37,745            | —               | —                    | —                           | 37,745           |
| Financial assets held under<br>resale agreements                          | 89,419                | 49,450            | 2,153           | —                    | —                           | 141,022          |
| Loans and advances to customers (i)                                       | 984,061               | 179,705           | 8,869           | 5,650                | —                           | 1,178,285        |
| Investment securities   | 31,177                | 53,743            | 78,123          | 27,880               | 139                         | 191,062          |
| Finance lease receivables   | 44,895                | —                 | —               | —                    | —                           | 44,895           |
| Other assets  | 16,027                | 7,330             | 7,237           | 2,583                | 37,737                      | 70,914           |
| <b>Total assets</b>   | <b>1,718,755</b>      | <b>334,363</b>    | <b>96,782</b>   | <b>36,113</b>        | <b>43,051</b>               | <b>2,229,064</b> |
| <b>Liabilities:</b>   |                       |                   |                 |                      |                             |                  |
| Deposits from customers   | 1,101,944             | 508,692           | 34,099          | 3                    | —                           | 1,644,738        |
| Deposits and placements<br>from banks and other<br>financial institutions | 178,278               | 97,284            | 3,779           | —                    | —                           | 279,341          |
| Financial assets sold<br>under repurchase agreements                      | 40,529                | 13,265            | —               | —                    | —                           | 53,794           |
| Borrowings from banks and<br>other financial institutions                 | 7,758                 | 27,847            | 4,583           | 637                  | —                           | 40,825           |
| Debt securities issued  | 1,670                 | 6,998             | 15,056          | 7,306                | —                           | 31,030           |
| Other liabilities   | 14,894                | 160               | 45              | —                    | 30,127                      | 45,226           |
| <b>Total liabilities</b>  | <b>1,345,073</b>      | <b>654,246</b>    | <b>57,562</b>   | <b>7,946</b>         | <b>30,127</b>               | <b>2,094,954</b> |
| <b>Total interest sensitivity gap</b>                                     | <b>373,682</b>        | <b>(319,883)</b>  | <b>39,220</b>   | <b>28,167</b>        | <b>12,924</b>               | <b>134,110</b>   |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

#### (iii) Interest rate risk (Continued)

##### Group (Continued)

|   | 2010               |                  |               |                   |               | Non-interest bearing | Total |
|---|--------------------|------------------|---------------|-------------------|---------------|----------------------|-------|
|   | Less than 3 months | 3 to 12 months   | 1 to 5 years  | More than 5 years |               |                      |       |
| Assets:   |                    |                  |               |                   |               |                      |       |
| Cash and balances with central bank                                 | 262,238            | —                | —             | —                 | 4,597         | 266,835              |       |
| Balances with banks and other financial institutions                | 123,990            | 1,472            | —             | —                 | —             | 125,462              |       |
| Placements with banks and other financial institutions              | 15,120             | 21,333           | —             | —                 | —             | 36,453               |       |
| Financial assets held under resale agreements                       | 107,495            | 5,437            | —             | —                 | —             | 112,932              |       |
| Loans and advances to customers (i)                                 | 895,825            | 129,555          | 9,745         | 2,598             | —             | 1,037,723            |       |
| Investment securities   | 38,467             | 51,911           | 60,386        | 24,030            | 125           | 174,919              |       |
| Finance lease receivables   | 29,288             | —                | —             | —                 | —             | 29,288               |       |
| Other assets  | 11,856             | 3,845            | 1,026         | 39                | 23,359        | 40,125               |       |
| <b>Total assets</b>   | <b>1,484,279</b>   | <b>213,553</b>   | <b>71,157</b> | <b>26,667</b>     | <b>28,081</b> | <b>1,823,737</b>     |       |
| Liabilities:  |                    |                  |               |                   |               |                      |       |
| Deposits from customers   | 992,714            | 408,054          | 16,779        | 330               | —             | 1,417,877            |       |
| Deposits and placements from banks and other financial institutions | 160,521            | 34,200           | 6,500         | —                 | —             | 201,221              |       |
| Financial assets sold under repurchase agreements                   | 20,357             | 3,516            | —             | —                 | —             | 23,873               |       |
| Borrowings from banks and other financial institutions              | 19,544             | 5,667            | —             | —                 | —             | 25,211               |       |
| Debt securities issued  | —                  | 8,665            | —             | 12,383            | —             | 21,048               |       |
| Other liabilities   | 8,219              | —                | —             | —                 | 21,031        | 29,250               |       |
| <b>Total liabilities</b>  | <b>1,201,355</b>   | <b>460,102</b>   | <b>23,279</b> | <b>12,713</b>     | <b>21,031</b> | <b>1,718,480</b>     |       |
| <b>Total interest sensitivity gap</b>                               | <b>282,924</b>     | <b>(246,549)</b> | <b>47,878</b> | <b>13,954</b>     | <b>7,050</b>  | <b>105,257</b>       |       |

- (i) For loans and advances to customers of the Group, the “less than 3 months” category includes overdue amounts (net of allowances for impairment losses) of RMB6,393 million as at 31 December 2011 (2010: RMB4,318 million).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

#### (iii) Interest rate risk (Continued)

##### Bank

|   | 2011                  |                   |                 |                      |                             | Total            |
|---|-----------------------|-------------------|-----------------|----------------------|-----------------------------|------------------|
|   | Less than<br>3 months | 3 to 12<br>months | 1 to 5<br>years | More than<br>5 years | Non-<br>interest<br>bearing |                  |
| Assets:   |                       |                   |                 |                      |                             |                  |
| Cash and balances with central bank                                       | 325,796               | —                 | —               | —                    | 5,102                       | 330,898          |
| Balances with banks and<br>other financial institutions                   | 223,510               | 6,280             | 400             | —                    | —                           | 230,190          |
| Placements with banks and<br>other financial institutions                 | —                     | 37,745            | —               | —                    | —                           | 37,745           |
| Financial assets held under<br>resale agreements                          | 89,419                | 49,450            | 2,153           | —                    | —                           | 141,022          |
| Loans and advances to customers (i)                                       | 980,814               | 176,417           | 8,636           | 5,649                | —                           | 1,171,516        |
| Investment securities   | 31,177                | 53,743            | 78,093          | 27,880               | 139                         | 191,032          |
| Other assets  | 10,366                | 7,330             | 7,237           | 2,583                | 32,541                      | 60,057           |
| <b>Total assets</b>   | <b>1,661,082</b>      | <b>330,965</b>    | <b>96,519</b>   | <b>36,112</b>        | <b>37,782</b>               | <b>2,162,460</b> |
| Liabilities:  |                       |                   |                 |                      |                             |                  |
| Deposits from customers   | 1,094,932             | 505,798           | 33,982          | —                    | —                           | 1,634,712        |
| Deposits and placements<br>from banks and other<br>financial institutions | 180,115               | 98,496            | 3,826           | —                    | —                           | 282,437          |
| Financial assets sold<br>under repurchase agreements                      | 34,160                | 13,231            | —               | —                    | —                           | 47,391           |
| Debt securities issued  | 1,670                 | 6,998             | 15,056          | 7,306                | —                           | 31,030           |
| Other liabilities   | 14,455                | —                 | —               | —                    | 23,934                      | 38,389           |
| <b>Total liabilities</b>  | <b>1,325,332</b>      | <b>624,523</b>    | <b>52,864</b>   | <b>7,306</b>         | <b>23,934</b>               | <b>2,033,959</b> |
| <b>Total interest sensitivity gap</b>                                     | <b>335,750</b>        | <b>(293,558)</b>  | <b>43,655</b>   | <b>28,806</b>        | <b>13,848</b>               | <b>128,501</b>   |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

#### (iii) Interest rate risk (Continued)

##### Bank (Continued)

|   | 2010               |                  |               |                   |               | Non-interest bearing | Total |
|---|--------------------|------------------|---------------|-------------------|---------------|----------------------|-------|
|   | Less than 3 months | 3 to 12 months   | 1 to 5 years  | More than 5 years |               |                      |       |
| Assets:   |                    |                  |               |                   |               |                      |       |
| Cash and balances with central bank                                 | 261,628            | —                | —             | —                 | 3,996         | 265,624              |       |
| Balances with banks and other financial institutions                | 123,387            | 1,470            | —             | —                 | —             | 124,857              |       |
| Placements with banks and other financial institutions              | 15,120             | 21,333           | —             | —                 | —             | 36,453               |       |
| Financial assets held under resale agreements                       | 107,495            | 5,437            | —             | —                 | —             | 112,932              |       |
| Loans and advances to customers (i)                                 | 895,130            | 126,947          | 9,585         | 2,598             | —             | 1,034,260            |       |
| Investment securities   | 38,142             | 51,861           | 60,386        | 24,030            | 125           | 174,544              |       |
| Other assets  | 6,203              | 3,845            | 1,026         | 39                | 20,527        | 31,640               |       |
| <b>Total assets</b>   | <b>1,447,105</b>   | <b>210,893</b>   | <b>70,997</b> | <b>26,667</b>     | <b>24,648</b> | <b>1,780,310</b>     |       |
| Liabilities:  |                    |                  |               |                   |               |                      |       |
| Deposits from customers   | 988,682            | 406,907          | 16,744        | 330               | —             | 1,412,663            |       |
| Deposits and placements from banks and other financial institutions | 161,660            | 34,200           | 6,500         | —                 | —             | 202,360              |       |
| Financial assets sold under repurchase agreements                   | 15,231             | 16               | —             | —                 | —             | 15,247               |       |
| Debt securities issued  | —                  | 8,665            | —             | 12,383            | —             | 21,048               |       |
| Other liabilities   | 7,962              | —                | —             | —                 | 17,471        | 25,433               |       |
| <b>Total liabilities</b>  | <b>1,173,535</b>   | <b>449,788</b>   | <b>23,244</b> | <b>12,713</b>     | <b>17,471</b> | <b>1,676,751</b>     |       |
| <b>Total interest sensitivity gap</b>                               | <b>273,570</b>     | <b>(238,895)</b> | <b>47,753</b> | <b>13,954</b>     | <b>7,177</b>  | <b>103,559</b>       |       |

(i) For loans and advances to customers of the Bank, the "less than 3 months" category includes overdue amounts (net of allowances for impairment losses) of RMB6,390 million as at 31 December 2011 (2010: RMB4,318 million).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (3) Market risk (Continued)

#### (iii) Interest rate risk (Continued)

If yield curves for respective currencies move in parallel for 100 basis points on 1 January 2012, their potential impact on the Group's and the Bank's net interest income and shareholders' equity for the following year is as follows:

|   | Group               |                     | Bank                |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | 2011<br>Gain/(loss) | 2010<br>Gain/(loss) | 2011<br>Gain/(loss) | 2010<br>Gain/(loss) |
| Up 100 bps parallel shift in yield curves   | 2,070               | 1,531               | 1,837               | 1,478               |
| Down 100 bps parallel shift in yield curves | (2,070)             | (1,531)             | (1,837)             | (1,478)             |

In performing the interest rate sensitivity analysis, the Group and the Bank have made general assumptions in defining business terms and financial parameters, but have not considered the following:

- business changes after the end of the reporting period, as the analysis is performed based on the static gap at the end of the reporting period;
- the impact of interest rate fluctuations on customers' behaviour;
- the complicated relationship between complex structured products (e.g. embedded call options and other derivative financial instruments) and interest rate fluctuations;
- the impact of interest rate fluctuations on market prices;
- the impact of interest rate fluctuations on off-balance sheet products;
- the impact of interest rate fluctuations on fair value of financial instruments.

### (4) Liquidity risk

Liquidity risk is the risk that the Group is unable to provide funds for maturing liabilities through timely asset realisation at reasonable prices.

The Bank and its subsidiaries manage their respective liquidity risks separately and independently, and the Bank manages the liquidity risk of all its branches.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

The Bank is exposed to daily calls on its available cash resources from overnight deposits, demand deposits, maturing deposits, loan drawdowns, guarantees and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

According to the Commercial Bank Law, the RMB loan-to-deposit ratio is required to be within 75%. The Bank's RMB loan-to-deposit ratio complies with the Commercial Bank Law and the CBRC requirements.

As at 31 December 2011, the Bank was required to maintain 19% of the total RMB denominated deposits and 5% of the total foreign currency denominated balances as statutory reserves with the PBOC.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the full amounts under commitments, because the Bank does not generally expect the third party to fully draw funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

#### (i) Liquidity risk management policy

The Bank and its subsidiaries separately and independently develop their liquidity risk management policies.

The Bank's senior management is responsible for formulating liquidity risk management policies according to the development strategy of the Bank. The Assets and Liabilities Management Department is responsible for the daily liquidity risk management through the following procedures:

- To manage the day-to-day position through monitoring the future cash flow to ensure it meets the required fund position, including matured deposits and replenishment of funds for loan demand. The Bank actively participates in global money market transactions to ensure the Bank's funding requirements are satisfied;
- To set ratio requirements and transactions limits to help monitor and manage liquidity risks. The ratios include but are not limited to loan to deposit ratios, deposit reserve ratios, liquidity ratios, liquidity gap ratios, and guiding target ratios for every branch;

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (i) Liquidity risk management policy (Continued)

- To monitor liquidity ratios and liquidity gap ratios through the Bank's asset and liabilities management system, and perform liquidity scenario analyses and stress testing on overall assets and liabilities to satisfy internal and external requirements. Various techniques are used to estimate the Bank's liquidity requirements, and liquidity risk management decisions are made based on the estimated liquidity requirements and within respective terms of reference. A periodical reporting system is established to promptly update senior management on latest liquidity risk information;
  
- To monitor the maturity concentration risk of financial assets and hold an appropriate quantity of high-liquidity and high-market-value assets to ensure the Bank is well positioned to fund its repayment obligations and business growth in the event of an interruption of cash flows due to whatever causes.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (ii) Maturity analysis

The following tables analyse the Group's and the Bank's assets and liabilities based on remaining periods to repayment as at the end of the reporting period.

#### Group

|   | 2011           |                     |                   |                 |                |                |                   | Total            |
|---|----------------|---------------------|-------------------|-----------------|----------------|----------------|-------------------|------------------|
|   | Indefinite (j) | Repayable on demand | Less than 1 month | 1 to 3 months   | 3 to 12 months | 1 to 5 years   | More than 5 years |                  |
| Assets:   |                |                     |                   |                 |                |                |                   |                  |
| Cash and balances with central bank                                 | 278,456        | 54,349              | —                 | —               | —              | —              | —                 | 332,805          |
| Balances with banks and other financial institutions                | —              | 58,435              | 137,129           | 29,982          | 6,390          | 400            | —                 | 232,336          |
| Placements with banks and other financial institutions              | —              | —                   | —                 | —               | 37,745         | —              | —                 | 37,745           |
| Financial assets held under resale agreements                       | —              | —                   | 33,215            | 56,204          | 49,450         | 2,153          | —                 | 141,022          |
| Loans and advances to customers (ii)                                | 5,186          | 2,525               | 83,195            | 117,387         | 561,162        | 253,764        | 155,066           | 1,178,285        |
| Investment securities   |                |                     |                   |                 |                |                |                   |                  |
| — available-for-sale securities                                     | 157            | —                   | 1,187             | 4,717           | 27,579         | 24,120         | 7,097             | 64,857           |
| — held-to-maturity securities                                       | —              | —                   | 9,420             | 8,522           | 18,473         | 61,958         | 19,513            | 117,886          |
| — loans and receivables   | —              | —                   | —                 | 104             | 673            | 1,727          | 5,815             | 8,319            |
| Finance lease receivables   | —              | —                   | 1,742             | 2,096           | 11,020         | 27,978         | 2,059             | 44,895           |
| Other assets  | 29,480         | 716                 | 2,047             | 4,066           | 12,724         | 15,768         | 6,113             | 70,914           |
| <b>Total assets</b>   | <b>313,279</b> | <b>116,025</b>      | <b>267,935</b>    | <b>223,078</b>  | <b>725,216</b> | <b>387,868</b> | <b>195,663</b>    | <b>2,229,064</b> |
| Liabilities:  |                |                     |                   |                 |                |                |                   |                  |
| Deposits from customers   | —              | 697,910             | 212,552           | 191,449         | 382,521        | 157,837        | 2,469             | 1,644,738        |
| Deposits and placements from banks and other financial institutions | —              | 26,520              | 111,574           | 40,184          | 97,284         | 3,779          | —                 | 279,341          |
| Financial assets sold under repurchase agreements                   | —              | —                   | 25,047            | 10,243          | 15,323         | 2,879          | 302               | 53,794           |
| Borrowings from banks and other financial institutions              | —              | —                   | 617               | 7,141           | 27,847         | 4,583          | 637               | 40,825           |
| Debt securities issued  | —              | —                   | —                 | —               | 6,000          | 16,054         | 8,976             | 31,030           |
| Other liabilities   | 2,784          | 19,164              | 4,155             | 3,606           | 8,057          | 6,526          | 934               | 45,226           |
| <b>Total liabilities</b>  | <b>2,784</b>   | <b>743,594</b>      | <b>353,945</b>    | <b>252,623</b>  | <b>537,032</b> | <b>191,658</b> | <b>13,318</b>     | <b>2,094,954</b> |
| <b>Net position</b>   | <b>310,495</b> | <b>(627,569)</b>    | <b>(86,010)</b>   | <b>(29,545)</b> | <b>188,184</b> | <b>196,210</b> | <b>182,345</b>    | <b>134,110</b>   |
| Notional amount of derivatives                                      | —              | —                   | 42,287            | 20,518          | 23,576         | 17,140         | 12,700            | 116,221          |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (ii) Maturity analysis (Continued)

##### Group (Continued)

|   | 2010           |                     |                   |                 |                |                |                   | Total            |
|---|----------------|---------------------|-------------------|-----------------|----------------|----------------|-------------------|------------------|
|   | Indefinite (i) | Repayable on demand | Less than 1 month | 1 to 3 months   | 3 to 12 months | 1 to 5 years   | More than 5 years |                  |
| Assets:   |                |                     |                   |                 |                |                |                   |                  |
| Cash and balances with central bank                                 | 198,234        | 68,601              | —                 | —               | —              | —              | —                 | 266,835          |
| Balances with banks and other financial institutions                | —              | 51,509              | 44,441            | 28,040          | 1,472          | —              | —                 | 125,462          |
| Placements with banks and other financial institutions              | —              | —                   | 9,080             | 6,040           | 21,333         | —              | —                 | 36,453           |
| Financial assets held under resale agreements                       | —              | —                   | 55,718            | 49,434          | 5,437          | 2,343          | —                 | 112,932          |
| Loans and advances to customers (ii)                                | 4,583          | 1,251               | 58,456            | 94,359          | 458,458        | 286,959        | 133,657           | 1,037,723        |
| Investment securities   |                |                     |                   |                 |                |                |                   |                  |
| — available-for-sale securities                                     | 148            | —                   | 1,389             | 4,990           | 18,519         | 5,279          | 4,867             | 35,192           |
| — held-to-maturity securities                                       | —              | —                   | 8,628             | 16,145          | 24,101         | 61,940         | 17,796            | 128,610          |
| — loans and receivables   | —              | —                   | —                 | 681             | 1,444          | 3,007          | 5,985             | 11,117           |
| Finance lease receivables   | —              | —                   | 848               | 1,224           | 6,345          | 18,613         | 2,258             | 29,288           |
| Other assets  | 19,889         | 295                 | 2,460             | 1,399           | 12,337         | 2,851          | 894               | 40,125           |
| <b>Total assets</b>   | <b>222,854</b> | <b>121,656</b>      | <b>181,020</b>    | <b>202,312</b>  | <b>549,446</b> | <b>380,992</b> | <b>165,457</b>    | <b>1,823,737</b> |
| Liabilities:  |                |                     |                   |                 |                |                |                   |                  |
| Deposits from customers   | —              | 653,016             | 194,012           | 145,686         | 285,780        | 138,553        | 830               | 1,417,877        |
| Deposits and placements from banks and other financial institutions | —              | 36,608              | 56,671            | 57,942          | 37,973         | 12,027         | —                 | 201,221          |
| Financial assets sold under repurchase agreements                   | —              | —                   | 7,663             | 8,885           | 6,018          | 1,043          | 264               | 23,873           |
| Borrowings from banks and other financial institutions              | —              | —                   | 760               | 5,750           | 17,592         | 720            | 389               | 25,211           |
| Debt securities issued  | —              | —                   | —                 | —               | —              | 11,773         | 9,275             | 21,048           |
| Other liabilities   | 1,773          | 10,598              | 2,295             | 846             | 10,151         | 2,575          | 1,012             | 29,250           |
| <b>Total liabilities</b>  | <b>1,773</b>   | <b>700,222</b>      | <b>261,401</b>    | <b>219,109</b>  | <b>357,514</b> | <b>166,691</b> | <b>11,770</b>     | <b>1,718,480</b> |
| <b>Net position</b>   | <b>221,081</b> | <b>(578,566)</b>    | <b>(80,381)</b>   | <b>(16,797)</b> | <b>191,932</b> | <b>214,301</b> | <b>153,687</b>    | <b>105,257</b>   |
| Notional amount of derivatives                                      | —              | —                   | 11,455            | 9,710           | 13,394         | 12,170         | 13,362            | 60,091           |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (ii) Maturity analysis (Continued)

##### Bank

|   | 2011           |                     |                   |                 |                |                |                   | Total            |
|---|----------------|---------------------|-------------------|-----------------|----------------|----------------|-------------------|------------------|
|   | Indefinite (i) | Repayable on demand | Less than 1 month | 1 to 3 months   | 3 to 12 months | 1 to 5 years   | More than 5 years |                  |
| Assets:   |                |                     |                   |                 |                |                |                   |                  |
| Cash and balances with central bank                                 | 276,839        | 54,059              | —                 | —               | —              | —              | —                 | 330,898          |
| Balances with banks and other financial institutions                | —              | 56,666              | 136,909           | 29,935          | 6,280          | 400            | —                 | 230,190          |
| Placements with banks and other financial institutions              | —              | —                   | —                 | —               | 37,745         | —              | —                 | 37,745           |
| Financial assets held under resale agreements                       | —              | —                   | 33,215            | 56,204          | 49,450         | 2,153          | —                 | 141,022          |
| Loans and advances to customers (ii)                                | 5,186          | 2,525               | 82,739            | 116,434         | 556,075        | 253,499        | 155,058           | 1,171,516        |
| Investment securities   |                |                     |                   |                 |                |                |                   |                  |
| — available-for-sale securities                                     | 157            | —                   | 1,187             | 4,717           | 27,579         | 24,090         | 7,097             | 64,827           |
| — held-to-maturity securities                                       | —              | —                   | 9,420             | 8,522           | 18,473         | 61,958         | 19,513            | 117,886          |
| — loans and receivables   | —              | —                   | —                 | 104             | 673            | 1,727          | 5,815             | 8,319            |
| Other assets  | 24,426         | 713                 | 2,025             | 3,933           | 11,754         | 11,782         | 5,424             | 60,057           |
| <b>Total assets</b>   | <b>306,608</b> | <b>113,963</b>      | <b>265,495</b>    | <b>219,849</b>  | <b>708,029</b> | <b>355,609</b> | <b>192,907</b>    | <b>2,162,460</b> |
| Liabilities:  |                |                     |                   |                 |                |                |                   |                  |
| Deposits from customers   | —              | 693,039             | 211,347           | 190,546         | 379,594        | 157,720        | 2,466             | 1,634,712        |
| Deposits and placements from banks and other financial institutions | —              | 26,853              | 112,787           | 40,475          | 98,496         | 3,826          | —                 | 282,437          |
| Financial assets sold under repurchase agreements                   | —              | —                   | 23,925            | 10,235          | 13,231         | —              | —                 | 47,391           |
| Debt securities issued  | —              | —                   | —                 | —               | 6,000          | 16,054         | 8,976             | 31,030           |
| Other liabilities   | 2,798          | 18,764              | 4,015             | 3,410           | 6,263          | 2,944          | 195               | 38,389           |
| <b>Total liabilities</b>  | <b>2,798</b>   | <b>738,656</b>      | <b>352,074</b>    | <b>244,666</b>  | <b>503,584</b> | <b>180,544</b> | <b>11,637</b>     | <b>2,033,959</b> |
| <b>Net position</b>   | <b>303,810</b> | <b>(624,693)</b>    | <b>(86,579)</b>   | <b>(24,817)</b> | <b>204,445</b> | <b>175,065</b> | <b>181,270</b>    | <b>128,501</b>   |
| Notional amount of derivatives                                      | —              | —                   | 42,287            | 20,518          | 23,576         | 17,140         | 12,700            | 116,221          |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (ii) Maturity analysis (Continued)

##### Bank (Continued)

|   | 2010           |                     |                   |                 |                |                |                   | Total            |
|---|----------------|---------------------|-------------------|-----------------|----------------|----------------|-------------------|------------------|
|   | Indefinite (i) | Repayable on demand | Less than 1 month | 1 to 3 months   | 3 to 12 months | 1 to 5 years   | More than 5 years |                  |
| Assets:   |                |                     |                   |                 |                |                |                   |                  |
| Cash and balances with central bank                                 | 197,713        | 67,911              | —                 | —               | —              | —              | —                 | 265,624          |
| Balances with banks and other financial institutions                | —              | 51,056              | 44,291            | 28,040          | 1,470          | —              | —                 | 124,857          |
| Placements with banks and other financial institutions              | —              | —                   | 9,080             | 6,040           | 21,333         | —              | —                 | 36,453           |
| Financial assets held under resale agreements                       | —              | —                   | 55,718            | 49,434          | 5,437          | 2,343          | —                 | 112,932          |
| Loans and advances to customers (ii)                                | 4,583          | 1,251               | 58,194            | 93,850          | 455,918        | 286,807        | 133,657           | 1,034,260        |
| Investment securities   |                |                     |                   |                 |                |                |                   |                  |
| — available-for-sale securities                                     | 148            | —                   | 1,389             | 4,990           | 18,519         | 5,279          | 4,867             | 35,192           |
| — held-to-maturity securities                                       | —              | —                   | 8,303             | 16,145          | 24,051         | 61,940         | 17,796            | 128,235          |
| — loans and receivables   | —              | —                   | —                 | 681             | 1,444          | 3,007          | 5,985             | 11,117           |
| Other assets  | 17,134         | 279                 | 462               | 747             | 6,337          | 2,793          | 3,888             | 31,640           |
| <b>Total assets</b>   | <b>219,578</b> | <b>120,497</b>      | <b>177,437</b>    | <b>199,927</b>  | <b>534,509</b> | <b>362,169</b> | <b>166,193</b>    | <b>1,780,310</b> |
| Liabilities:  |                |                     |                   |                 |                |                |                   |                  |
| Deposits from customers   | —              | 649,735             | 193,557           | 145,390         | 284,633        | 138,518        | 830               | 1,412,663        |
| Deposits and placements from banks and other financial institutions | —              | 37,256              | 57,162            | 57,942          | 37,973         | 12,027         | —                 | 202,360          |
| Financial assets sold under repurchase agreements                   | —              | —                   | 7,643             | 7,588           | 16             | —              | —                 | 15,247           |
| Debt securities issued  | —              | —                   | —                 | —               | —              | 11,773         | 9,275             | 21,048           |
| Other liabilities   | 1,773          | 10,107              | 1,691             | 651             | 9,558          | 756            | 897               | 25,433           |
| <b>Total liabilities</b>  | <b>1,773</b>   | <b>697,098</b>      | <b>260,053</b>    | <b>211,571</b>  | <b>332,180</b> | <b>163,074</b> | <b>11,002</b>     | <b>1,676,751</b> |
| <b>Net position</b>   | <b>217,805</b> | <b>(576,601)</b>    | <b>(82,616)</b>   | <b>(11,644)</b> | <b>202,329</b> | <b>199,095</b> | <b>155,191</b>    | <b>103,559</b>   |
| Notional amount of derivatives                                      | —              | —                   | 11,455            | 9,710           | 13,394         | 12,170         | 13,362            | 60,091           |

(i) For cash and balances with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. For loans and advances to customers and investments represent the balances being impaired or overdue for more than one month. Equity investments are also reported under indefinite period.

(ii) For loans and advances to customers, the indefinite period amount represents the balance being impaired or overdue for more than one month. The balance not impaired and overdue within one month is included in repayable on demand.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (iii) Analysis on contractual undiscounted cash flows of non-derivative financial assets and liabilities

The following tables analyse the Group's and the Bank's contractual undiscounted cash flows of non-derivative financial assets and liabilities as at the end of the reporting period. The Group manages inherent liquidity risk based on its estimation of expected future cash flows.

#### Group

|   | 2011              |                |                |                |                                  | Total            |
|---|-------------------|----------------|----------------|----------------|----------------------------------|------------------|
|   | Less than 1 month | 1 to 3 months  | 3 to 12 months | 1 to 5 years   | More than 5 years and indefinite |                  |
| Financial assets:   |                   |                |                |                |                                  |                  |
| Cash and balances with central bank                                 | 54,350            | —              | —              | —              | 278,469                          | 332,819          |
| Balances with banks and other financial institutions                | 196,265           | 30,521         | 6,638          | 419            | —                                | 233,843          |
| Placements with banks and other financial institutions              | —                 | 42             | 39,725         | —              | —                                | 39,767           |
| Financial assets held under resale agreements                       | 35,402            | 56,207         | 49,452         | 2,186          | —                                | 143,247          |
| Loans and advances to customers                                     | 97,921            | 130,323        | 600,971        | 327,512        | 234,404                          | 1,391,131        |
| Investment securities   | 9,824             | 18,008         | 48,711         | 101,771        | 37,820                           | 216,134          |
| Finance lease receivables   | 2,087             | 2,501          | 13,119         | 33,338         | 2,455                            | 53,500           |
| Other financial assets  | 2,615             | 2,779          | 10,190         | 17,423         | 6,407                            | 39,414           |
| <b>Total financial assets (expected maturity date)</b>              | <b>398,464</b>    | <b>240,381</b> | <b>768,806</b> | <b>482,649</b> | <b>559,555</b>                   | <b>2,449,855</b> |
| Financial liabilities:  |                   |                |                |                |                                  |                  |
| Deposits from customers   | 912,878           | 195,366        | 397,965        | 192,920        | 3,159                            | 1,702,288        |
| Deposits and placements from banks and other financial institutions | 139,573           | 43,866         | 97,581         | 3,824          | —                                | 284,844          |
| Financial assets sold under repurchase agreements                   | 25,432            | 10,538         | 16,028         | 2,879          | 302                              | 55,179           |
| Borrowings from banks and other financial institutions              | 763               | 7,517          | 27,597         | 6,678          | 809                              | 43,364           |
| Debt securities issued  | —                 | 848            | 6,711          | 21,125         | 10,720                           | 39,404           |
| Other financial liabilities   | 1,117             | 355            | 3,083          | 4,259          | 748                              | 9,562            |
| <b>Total financial liabilities (contractual maturity date)</b>      | <b>1,079,763</b>  | <b>258,490</b> | <b>548,965</b> | <b>231,685</b> | <b>15,738</b>                    | <b>2,134,641</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (iii) Analysis on contractual undiscounted cash flows of non-derivative financial assets and liabilities (Continued)

##### Group (Continued)

|   | 2010                 |                  |                   |                 |   | Total            |
|---|----------------------|------------------|-------------------|-----------------|---|------------------|
|   | Less than<br>1 month | 1 to 3<br>months | 3 to 12<br>months | 1 to 5<br>years | More than<br>5 years<br>and<br>indefinite |                  |
| Financial assets:   |                      |                  |                   |                 |   |                  |
| Cash and balances with central bank                                       | 68,604               | —                | —                 | —               | 198,320                                   | 266,924          |
| Balances with banks and<br>other financial institutions                   | 96,225               | 28,365           | 1,496             | —               | —   | 126,086          |
| Placements with banks and<br>other financial institutions                 | 9,130                | 6,160            | 22,030            | —               | —   | 37,320           |
| Financial assets held under<br>resale agreements                          | 56,168               | 49,927           | 5,574             | 2,534           | —   | 114,203          |
| Loans and advances to customers   | 65,610               | 105,968          | 493,298           | 363,686         | 193,671                                   | 1,222,233        |
| Investment securities   | 10,075               | 22,466           | 46,191            | 81,596          | 34,164                                    | 194,492          |
| Finance lease receivables   | 1,014                | 1,464            | 7,590             | 22,265          | 2,701                                     | 35,034           |
| Other financial assets  | 494                  | 804              | 5,312             | 8,123           | 1,847                                     | 16,580           |
| <b>Total financial assets<br/>(expected maturity date)</b>                | <b>307,320</b>       | <b>215,154</b>   | <b>581,491</b>    | <b>478,204</b>  | <b>430,703</b>                            | <b>2,012,872</b> |
| Financial liabilities:  |                      |                  |                   |                 |   |                  |
| Deposits from customers   | 855,814              | 147,369          | 298,137           | 156,836         | 639                                       | 1,458,795        |
| Deposits and placements<br>from banks and other<br>financial institutions | 94,397               | 60,501           | 39,712            | 13,873          | —   | 208,483          |
| Financial assets sold<br>under repurchase agreements                      | 7,668                | 9,087            | 6,201             | 1,207           | 297                                       | 24,460           |
| Borrowings from banks and<br>other financial institutions                 | 763                  | 5,935            | 18,008            | 862             | 442                                       | 26,010           |
| Debt securities issued  | —                    | 277              | 644               | 9,142           | 21,144                                    | 31,207           |
| Other financial liabilities   | 2,359                | 804              | 1,358             | 2,498           | 732                                       | 7,751            |
| <b>Total financial liabilities<br/>(contractual maturity date)</b>        | <b>961,001</b>       | <b>223,973</b>   | <b>364,060</b>    | <b>184,418</b>  | <b>23,254</b>                             | <b>1,756,706</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (iii) Analysis on contractual undiscounted cash flows of non-derivative financial assets and liabilities (Continued)

##### Bank

|   | 2011              |                |                |                |                                  | Total            |
|---|-------------------|----------------|----------------|----------------|----------------------------------|------------------|
|   | Less than 1 month | 1 to 3 months  | 3 to 12 months | 1 to 5 years   | More than 5 years and indefinite |                  |
| Financial assets:   |                   |                |                |                |                                  |                  |
| Cash and balances with central bank                                 | 54,060            | —              | —              | —              | 276,851                          | 330,911          |
| Balances with banks and other financial institutions                | 194,276           | 30,474         | 6,528          | 419            | —                                | 231,697          |
| Placements with banks and other financial institutions              | —                 | 42             | 39,725         | —              | —                                | 39,767           |
| Financial assets held under resale agreements                       | 35,402            | 56,207         | 49,452         | 2,186          | —                                | 143,247          |
| Loans and advances to customers                                     | 97,384            | 129,535        | 595,467        | 327,215        | 234,371                          | 1,383,972        |
| Investment securities   | 9,824             | 18,008         | 48,714         | 101,802        | 37,820                           | 216,168          |
| Other financial assets  | 2,582             | 2,620          | 9,389          | 12,876         | 5,419                            | 32,886           |
| <b>Total financial assets (expected maturity date)</b>              | <b>393,528</b>    | <b>236,886</b> | <b>749,275</b> | <b>444,498</b> | <b>554,461</b>                   | <b>2,378,648</b> |
| Financial liabilities:  |                   |                |                |                |                                  |                  |
| Deposits from customers   | 906,802           | 194,463        | 395,038        | 192,803        | 3,156                            | 1,692,262        |
| Deposits and placements from banks and other financial institutions | 141,119           | 44,154         | 98,793         | 3,871          | —                                | 287,937          |
| Financial assets sold under repurchase agreements                   | 24,310            | 10,530         | 13,936         | —              | —                                | 48,776           |
| Debt securities issued  | —                 | 848            | 6,711          | 21,125         | 10,720                           | 39,404           |
| Other financial liabilities   | 1,919             | 570            | 2,586          | 1,529          | 51                               | 6,655            |
| <b>Total financial liabilities (contractual maturity date)</b>      | <b>1,074,150</b>  | <b>250,565</b> | <b>517,064</b> | <b>219,328</b> | <b>13,927</b>                    | <b>2,075,034</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (iii) Analysis on contractual undiscounted cash flows of non-derivative financial assets and liabilities (Continued)

##### Bank (Continued)

|   | 2010                 |                  |                   |                 |   | Total            |
|---|----------------------|------------------|-------------------|-----------------|---|------------------|
|   | Less than<br>1 month | 1 to 3<br>months | 3 to 12<br>months | 1 to 5<br>years | More than<br>5 years<br>and<br>indefinite |                  |
| Financial assets:   |                      |                  |                   |                 |   |                  |
| Cash and balances with central bank                                       | 67,914               | —                | —                 | —               | 197,799                                   | 265,713          |
| Balances with banks and<br>other financial institutions                   | 95,622               | 28,365           | 1,494             | —               | —   | 125,481          |
| Placements with banks and<br>other financial institutions                 | 9,130                | 6,160            | 22,030            | —               | —   | 37,320           |
| Financial assets held under<br>resale agreements                          | 56,168               | 49,927           | 5,574             | 2,534           | —   | 114,203          |
| Loans and advances to customers   | 65,347               | 105,456          | 490,729           | 363,632         | 193,671                                   | 1,218,835        |
| Investment securities   | 9,750                | 22,466           | 46,141            | 81,596          | 34,164                                    | 194,117          |
| Other financial assets  | 422                  | 761              | 4,301             | 2,866           | 3,886                                     | 12,236           |
| <b>Total financial assets<br/>(expected maturity date)</b>                | <b>304,353</b>       | <b>213,135</b>   | <b>570,269</b>    | <b>450,628</b>  | <b>429,520</b>                            | <b>1,967,905</b> |
| Financial liabilities:  |                      |                  |                   |                 |   |                  |
| Deposits from customers   | 852,078              | 147,073          | 296,989           | 156,802         | 639                                       | 1,453,581        |
| Deposits and placements<br>from banks and other<br>financial institutions | 95,486               | 60,501           | 39,712            | 13,873          | —   | 209,572          |
| Financial assets sold<br>under repurchase agreements                      | 7,668                | 7,688            | 16                | —               | —   | 15,372           |
| Debt securities issued  | —                    | 277              | 644               | 9,142           | 21,144                                    | 31,207           |
| Other financial liabilities   | 1,773                | 609              | 946               | 612             | 374                                       | 4,314            |
| <b>Total financial liabilities<br/>(contractual maturity date)</b>        | <b>957,005</b>       | <b>216,148</b>   | <b>338,307</b>    | <b>180,429</b>  | <b>22,157</b>                             | <b>1,714,046</b> |

#### (iv) Analysis on contractual undiscounted cash flows of derivatives

##### a Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include:

- Interest rate derivatives: interest rate swaps;
- Credit derivatives: credit default swaps.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (iv) Analysis on contractual undiscounted cash flows of derivatives (Continued)

##### a Derivatives settled on a net basis (Continued)

The following tables analyse the Group's and the Bank's contractual undiscounted cash flows of derivatives to be settled on a net basis as at the end of the reporting period.

#### Group and Bank

|                           | 2011                 |                  |                   |                 |                      | Total    |
|---------------------------|----------------------|------------------|-------------------|-----------------|----------------------|----------|
|                           | Less than<br>1 month | 1 to 3<br>months | 3 to 12<br>months | 1 to 5<br>years | More than<br>5 years |          |
| Interest rate derivatives | —                    | 2                | 21                | (20)            | —                    | 3        |
| Credit derivatives        | —                    | —                | —                 | —               | —                    | —        |
| <b>Total</b>              | <b>—</b>             | <b>2</b>         | <b>21</b>         | <b>(20)</b>     | <b>—</b>             | <b>3</b> |

|                           | 2010                 |                  |                   |                 |                      | Total      |
|---------------------------|----------------------|------------------|-------------------|-----------------|----------------------|------------|
|                           | Less than<br>1 month | 1 to 3<br>months | 3 to 12<br>months | 1 to 5<br>years | More than<br>5 years |            |
| Interest rate derivatives | (6)                  | 9                | 28                | 88              | —                    | 119        |
| Credit derivatives        | —                    | —                | —                 | 1               | —                    | 1          |
| <b>Total</b>              | <b>(6)</b>           | <b>9</b>         | <b>28</b>         | <b>89</b>       | <b>—</b>             | <b>120</b> |

##### b Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forwards, currency swaps and currency options;
- Precious metal derivatives: precious metal forwards & swaps.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (iv) Analysis on contractual undiscounted cash flows of derivatives (Continued)

##### b Derivatives settled on a gross basis (Continued)

The following tables analyse the Group's and the Bank's contractual undiscounted cash flows of derivatives to be settled on a gross basis as at the end of the reporting period.

#### Group and Bank

|                              | 2011                 |                  |                   |                 |                      | Total           |
|------------------------------|----------------------|------------------|-------------------|-----------------|----------------------|-----------------|
|                              | Less than<br>1 month | 1 to 3<br>months | 3 to 12<br>months | 1 to 5<br>years | More than<br>5 years |                 |
| Foreign exchange derivatives |                      |                  |                   |                 |                      |                 |
| — Cash outflow               | (37,629)             | (15,492)         | (15,300)          | (189)           | —                    | (68,610)        |
| — Cash inflow                | 37,628               | 15,488           | 15,309            | 189             | —                    | 68,614          |
| Precious metal derivatives   |                      |                  |                   |                 |                      |                 |
| — Cash outflow               | (1,278)              | (1,544)          | —                 | —               | —                    | (2,822)         |
| — Cash inflow                | 1,241                | 1,405            | —                 | —               | —                    | 2,646           |
| <b>Total cash outflow</b>    | <b>(38,907)</b>      | <b>(17,036)</b>  | <b>(15,300)</b>   | <b>(189)</b>    | <b>—</b>             | <b>(71,432)</b> |
| <b>Total cash inflow</b>     | <b>38,869</b>        | <b>16,893</b>    | <b>15,309</b>     | <b>189</b>      | <b>—</b>             | <b>71,260</b>   |

|                              | 2010                 |                  |                   |                 |                      | Total           |
|------------------------------|----------------------|------------------|-------------------|-----------------|----------------------|-----------------|
|                              | Less than<br>1 month | 1 to 3<br>months | 3 to 12<br>months | 1 to 5<br>years | More than<br>5 years |                 |
| Foreign exchange derivatives |                      |                  |                   |                 |                      |                 |
| — Cash outflow               | (10,902)             | (8,259)          | (10,065)          | —               | —                    | (29,226)        |
| — Cash inflow                | 10,895               | 8,272            | 10,092            | —               | —                    | 29,259          |
| Precious metal derivatives   |                      |                  |                   |                 |                      |                 |
| — Cash outflow               | (762)                | —                | (24)              | —               | —                    | (786)           |
| — Cash inflow                | 798                  | —                | 24                | —               | —                    | 822             |
| <b>Total cash outflow</b>    | <b>(11,664)</b>      | <b>(8,259)</b>   | <b>(10,089)</b>   | <b>—</b>        | <b>—</b>             | <b>(30,012)</b> |
| <b>Total cash inflow</b>     | <b>11,693</b>        | <b>8,272</b>     | <b>10,116</b>     | <b>—</b>        | <b>—</b>             | <b>30,081</b>   |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (v) Analysis on contractual undiscounted cash flows of commitments

Management treats contractual maturity as the best estimate for analysing liquidity risk of off-balance sheet items, unless an objective evidence of default is identified.

#### Group

|                                | 2011                |                 |                      | Total          |
|--------------------------------|---------------------|-----------------|----------------------|----------------|
|                                | Less than<br>1 year | 1 to 5<br>years | More than<br>5 years |                |
| Bank acceptances               | 462,638             | —               | —                    | 462,638        |
| Guarantees                     | 33,077              | 23,866          | 10,378               | 67,321         |
| Letters of credit              | 65,752              | 616             | —                    | 66,368         |
| Trade refinancing*             | 55,601              | 733             | —                    | 56,334         |
| Unused credit card commitments | 12,578              | —               | —                    | 12,578         |
| Capital commitments            | 7,187               | 2,881           | —                    | 10,068         |
| Operating lease commitments    | 1,331               | 3,572           | 1,646                | 6,549          |
| Finance lease commitments      | 2,443               | 365             | —                    | 2,808          |
| Irrevocable loan commitments   | 435                 | 271             | 1,340                | 2,046          |
| <b>Total</b>                   | <b>641,042</b>      | <b>32,304</b>   | <b>13,364</b>        | <b>686,710</b> |

|                                | 2010                |                 |                      | Total          |
|--------------------------------|---------------------|-----------------|----------------------|----------------|
|                                | Less than<br>1 year | 1 to 5<br>years | More than<br>5 years |                |
| Bank acceptances               | 308,584             | —               | —                    | 308,584        |
| Guarantees                     | 27,087              | 20,253          | 2,775                | 50,115         |
| Letters of credit              | 28,872              | 1,190           | —                    | 30,062         |
| Trade refinancing*             | 24,267              | —               | —                    | 24,267         |
| Unused credit card commitments | 18,618              | —               | —                    | 18,618         |
| Capital commitments            | 3,087               | 5,209           | —                    | 8,296          |
| Irrevocable loan commitments   | 1,160               | 1,228           | 3,241                | 5,629          |
| Operating lease commitments    | 1,134               | 2,094           | 921                  | 4,149          |
| Finance lease commitments      | 1,898               | —               | —                    | 1,898          |
| <b>Total</b>                   | <b>414,707</b>      | <b>29,974</b>   | <b>6,937</b>         | <b>451,618</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (4) Liquidity risk (Continued)

#### (v) Analysis on contractual undiscounted cash flows of commitments (Continued)

##### Bank

|                                | 2011                |                 |                      | Total          |
|--------------------------------|---------------------|-----------------|----------------------|----------------|
|                                | Less than<br>1 year | 1 to 5<br>years | More than<br>5 years |                |
| Bank acceptances               | 462,169             | —               | —                    | 462,169        |
| Guarantees                     | 33,076              | 23,866          | 10,378               | 67,320         |
| Letters of credit              | 65,752              | 616             | —                    | 66,368         |
| Trade refinancing*             | 55,601              | 733             | —                    | 56,334         |
| Unused credit card commitments | 12,578              | —               | —                    | 12,578         |
| Operating lease commitments    | 1,303               | 3,496           | 1,618                | 6,417          |
| Irrevocable loan commitments   | 435                 | 271             | 1,340                | 2,046          |
| Capital commitments            | 25                  | 97              | —                    | 122            |
| <b>Total</b>                   | <b>630,939</b>      | <b>29,079</b>   | <b>13,336</b>        | <b>673,354</b> |

|                                | 2010                |                 |                      | Total          |
|--------------------------------|---------------------|-----------------|----------------------|----------------|
|                                | Less than<br>1 year | 1 to 5<br>years | More than<br>5 years |                |
| Bank acceptances               | 308,012             | —               | —                    | 308,012        |
| Guarantees                     | 27,087              | 20,253          | 2,775                | 50,115         |
| Letters of credit              | 28,872              | 1,190           | —                    | 30,062         |
| Trade refinancing*             | 24,267              | —               | —                    | 24,267         |
| Unused credit card commitments | 18,618              | —               | —                    | 18,618         |
| Irrevocable loan commitments   | 1,160               | 1,228           | 3,241                | 5,629          |
| Operating lease commitments    | 1,120               | 2,054           | 884                  | 4,058          |
| Capital commitments            | 3,087               | 319             | —                    | 3,406          |
| <b>Total</b>                   | <b>412,223</b>      | <b>25,044</b>   | <b>6,900</b>         | <b>444,167</b> |

\* Trade refinancing refers to the arrangement that the Bank, at the request of its customer, authorises a paying bank to refinance trade transactions of the customer on its behalf.

### (5) Fair value of financial assets and financial liabilities

#### (i) Financial instruments measured at fair value

IFRS 7 specifies a hierarchy of valuation techniques based on whether inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's market assumptions.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (5) Fair value of financial assets and financial liabilities (Continued)

#### (i) Financial instruments measured at fair value (Continued)

These two types of inputs have created the following fair value hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (e.g. London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchange-traded derivatives like futures (e.g. Nasdaq, S&P 500).

Level 2: inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes a majority of OTC derivative contracts, traded loans and issued structured debts. Input parameters like ChinaBond interbank yield curves, LIBOR yield curves or counterparty credit risk are sourced from Bloomberg and Reuters.

Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries its best to consider relevant and observable market prices in valuations.

The following financial assets and financial liabilities measured at fair value as at 31 December 2011 are presented based on the fair value hierarchy:

#### Group

|                                    | 2011       |               |            | Total         |
|------------------------------------|------------|---------------|------------|---------------|
|                                    | Level 1    | Level 2       | Level 3    |               |
| Trading financial assets           |            |               |            |               |
| — Debt securities                  | 9          | 20,414        | —          | 20,423        |
| — Equity instruments               | —          | —             | —          | —             |
| Positive fair value of derivatives | —          | 587           | —          | 587           |
| Available-for-sale securities      |            |               |            |               |
| — Debt securities                  | 820        | 63,763        | 135        | 64,718        |
| — Equity instruments               | 14         | 125           | —          | 139           |
| <b>Total</b>                       | <b>843</b> | <b>84,889</b> | <b>135</b> | <b>85,867</b> |
| Negative fair value of derivatives | —          | (787)         | —          | (787)         |
| <b>Total</b>                       | <b>—</b>   | <b>(787)</b>  | <b>—</b>   | <b>(787)</b>  |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (5) Fair value of financial assets and financial liabilities (Continued)

#### (i) Financial instruments measured at fair value (Continued)

##### Bank

|                                    | 2011       |               |            | Total         |
|------------------------------------|------------|---------------|------------|---------------|
|                                    | Level 1    | Level 2       | Level 3    |               |
| Trading financial assets           |            |               |            |               |
| – Debt securities                  | 9          | 20,414        | –          | 20,423        |
| – Equity instruments               | –          | –             | –          | –             |
| Positive fair value of derivatives | –          | 587           | –          | 587           |
| Available-for-sale securities      |            |               |            |               |
| – Debt securities                  | 820        | 63,763        | 105        | 64,688        |
| – Equity instruments               | 14         | 125           | –          | 139           |
| <b>Total</b>                       | <b>843</b> | <b>84,889</b> | <b>105</b> | <b>85,837</b> |
| Negative fair value of derivatives | –          | (787)         | –          | (787)         |
| <b>Total</b>                       | <b>–</b>   | <b>(787)</b>  | <b>–</b>   | <b>(787)</b>  |

The following financial assets and financial liabilities measured at fair value as at 31 December 2010 are presented based on the fair value hierarchy:

##### Group and Bank

|                                    | 2010       |               |            | Total         |
|------------------------------------|------------|---------------|------------|---------------|
|                                    | Level 1    | Level 2       | Level 3    |               |
| Trading financial assets           |            |               |            |               |
| – Debt securities                  | 30         | 5,994         | –          | 6,024         |
| – Equity instruments               | –          | –             | –          | –             |
| Positive fair value of derivatives | –          | 476           | –          | 476           |
| Available-for-sale securities      |            |               |            |               |
| – Debt securities                  | 92         | 34,778        | 197        | 35,067        |
| – Equity instruments               | –          | 125           | –          | 125           |
| <b>Total</b>                       | <b>122</b> | <b>41,373</b> | <b>197</b> | <b>41,692</b> |
| Negative fair value of derivatives | –          | (368)         | –          | (368)         |
| <b>Total</b>                       | <b>–</b>   | <b>(368)</b>  | <b>–</b>   | <b>(368)</b>  |

There were no significant transfers between Level 1 and Level 2 in 2011 and 2010.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (5) Fair value of financial assets and financial liabilities (Continued)

#### (ii) Financial instruments not measured at fair value

The following tables show the carrying values and fair values of financial assets and liabilities which are not measured at fair value:

|                                 | Carrying value |           |           |           |
|---------------------------------|----------------|-----------|-----------|-----------|
|                                 | Group          |           | Bank      |           |
|                                 | 2011           | 2010      | 2011      | 2010      |
| Financial assets:               |                |           |           |           |
| Loans and advances to customers | 1,178,285      | 1,037,723 | 1,171,516 | 1,034,260 |
| Investment securities           |                |           |           |           |
| — Held-to-maturity securities   | 117,886        | 128,610   | 117,886   | 128,235   |
| — Loans and receivables         | 8,319          | 11,117    | 8,319     | 11,117    |
| Financial liabilities:          |                |           |           |           |
| Deposits from customers         | 1,644,738      | 1,417,877 | 1,634,712 | 1,412,663 |
| Debt securities issued          | 31,030         | 21,048    | 31,030    | 21,048    |

|                                 | Fair value |           |           |           |
|---------------------------------|------------|-----------|-----------|-----------|
|                                 | Group      |           | Bank      |           |
|                                 | 2011       | 2010      | 2011      | 2010      |
| Financial assets:               |            |           |           |           |
| Loans and advances to customers | 1,194,894  | 1,038,564 | 1,188,028 | 1,035,101 |
| Investment securities           |            |           |           |           |
| — Held-to-maturity securities   | 117,771    | 127,013   | 117,771   | 126,638   |
| — Loans and receivables         | 8,002      | 11,220    | 8,002     | 11,220    |
| Financial liabilities:          |            |           |           |           |
| Deposits from customers         | 1,644,005  | 1,417,231 | 1,633,979 | 1,411,997 |
| Debt securities issued          | 30,384     | 21,300    | 30,384    | 21,300    |

- a Cash and balances with central bank, balances with banks and other financial institutions, placements with banks and other financial institutions, finance lease receivables, deposits and placements from banks and other financial institutions, borrowings from banks and other financial institutions, and financial assets held under resale agreements and sold under repurchase agreements**

Given that these financial assets and financial liabilities mainly mature within a year or adopt floating interest rates, their book values approximate their fair value.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (5) Fair value of financial assets and financial liabilities (Continued)

#### (ii) Financial instruments not measured at fair value (Continued)

##### **b Loans and advances to customers, and investment securities — loans and receivables**

Loans and advances to customers, and investment securities — loans and receivables are recorded net of allowance for impairment losses. Their estimated fair value represents the amount of estimated future cash flows expected to be received, discounted at current market rates.

##### **c Held-to-maturity securities**

The fair value for held-to-maturity assets is based on “bid” market prices or brokers’/dealers’ price quotations. If relevant market information is not available, the fair value is based on quote price of security products with similar characteristics such as credit risk, materiality and yield.

##### **d Deposits from customers**

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices are estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

##### **e Debt securities issued**

Fair values of debt securities issued are based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

### (6) Capital management

In managing capital, the Group aims to ensure compliance with regulatory requirements, continuously improve its ability to mitigate risks and enhance the return on its capital. On this basis, the Group has set its capital adequacy objectives, and taken a range of measures, including budgeting/planning and performance measurement and limit management, to ensure the realisation of management objectives. This helps meet the requirements for regulatory compliance, credit rating, risk premium and shareholder return; promote the Group’s risk management; ensure an orderly expansion of asset bases; and enhance business structures and models.

In recent years, the Bank has continued to grow rapidly in business scale, with increased capital utilisation. To ensure the capital adequacy ratio (“CAR”) is in line with regulatory requirements and to maximise shareholders’ return while controlling risks, the Group commits itself to establishing and fostering discipline for economically efficient capital management. There is continuous improvement of locked-in capital accounting and an introduction of planning and performance assessments that have return on capital as a primary performance indicator. At the same time, the use of capital is better managed, and management policies have been implemented to guide coordinated asset growth in business entities, with reduced capital requirements and enhanced return on capital.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Financial risk management (Continued)

### (6) Capital management (Continued)

The Group calculates and discloses its CAR in accordance with the Administrative Measures on Capital Adequacy Ratios of Commercial Banks and other related rules and regulations issued by the CBRC, and the Chinese Accounting Standards (“CAS”) issued by the Ministry of Finance (“MOF”) in 2006.

The Group’s consolidated regulatory capital position as at the end of the reporting period is as follows:

|  | Group            |                  |
|--|------------------|------------------|
|  | 2011             | 2010             |
| Core capital:  |                  |                  |
| Share capital  | 26,715           | 26,715           |
| Capital reserve net of unrealised gain from available-for-sale securities                    | 38,250           | 37,787           |
| Statutory surplus reserve  | 8,647            | 5,903            |
| General reserve  | 16,740           | 13,822           |
| Retained earnings (Note 38)  | 31,221           | 18,112           |
| Non-controlling interests  | 4,513            | 1,149            |
| <b>Total core capital:</b>   | <b>126,086</b>   | <b>103,488</b>   |
| Less: 50% of investments in unconsolidated entities  | (62)             | (62)             |
| <b>Net core capital</b>  | <b>126,024</b>   | <b>103,426</b>   |
| Supplementary capital:   |                  |                  |
| General provision  | 23,033           | 15,308           |
| Hybrid capital bonds   | 9,277            | 9,300            |
| Long-term subordinated bonds   | 15,753           | 5,800            |
| Positive changes in fair value of financial instruments at fair value through profit or loss | 10               | —                |
| <b>Total supplementary capital (Max of the 100% of net core capital)</b>                     | <b>48,073</b>    | <b>30,408</b>    |
| <b>Total capital</b>   | <b>174,159</b>   | <b>133,896</b>   |
| Less: Investments in unconsolidated entities   | (125)            | (124)            |
| <b>Net capital</b>   | <b>174,034</b>   | <b>133,772</b>   |
| <b>Total risk-weighted assets</b>  | <b>1,602,301</b> | <b>1,280,847</b> |
| <b>Core capital adequacy ratio</b>   | <b>7.87%</b>     | <b>8.07%</b>     |
| <b>Capital adequacy ratio</b>  | <b>10.86%</b>    | <b>10.44%</b>    |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 4 Significant accounting estimates and judgements

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below.

### (1) Impairment allowances on loans and advances

Besides impairment assessment for individually impaired loans, the Group reviews its loan portfolios to assess impairment regularly. In determining whether a provision for loan impairments should be recorded in the income statement, the Group judges whether there is any observable data indicating that there is a decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults of borrowers. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### (2) Fair value of derivative and other financial instruments

The Group establishes fair value of financial instruments with reference to quoted market prices in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

### (3) Impairment of available-for-sale securities and held-to-maturity securities

The Group follows the guidance of IAS 39 in determining impairment of available-for-sale securities and held-to-maturity securities. The determination of impairment requires a high level of management judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the financial health and perspective of the investee, including technological changes, credit ratings, delinquency rates, loss provision coverage and counterparty risk.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 4 Significant accounting estimates and judgements (Continued)

### (4) Held-to-maturity securities

The Group classifies certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity securities. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. Other than in specific circumstances (e.g. sale of an insignificant amount of held-to-maturity securities at a time close to maturity), if the Group fails to hold these securities to maturity or reclassifies some of the securities to available-for-sale securities, the Group shall have to reclassify any of the remaining held-to-maturity securities as available-for-sale securities, and measure them at fair value rather than amortised cost.

### (5) Taxation

In the ordinary course of business, many transactions and calculations involve uncertainties in the ultimate tax determination, and significant estimates are required in determining the provision for business tax and income tax. The Group recognises liabilities for anticipated tax inspection issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the business tax, income tax and deferred income tax provisions in the period during which such a determination is made.

## 5 Segment information

Following the management approach of IFRS 8, operating segments are reported in a manner consistent with the internal reporting provided to the Group's senior management, which is responsible for allocating resources to the reportable segments and assessing their performance.

The Group manages its businesses from the perspectives of geography and business lines. The geographical segment can be divided into four regions, including Northern China, Eastern China, Southern China and others. The business segment can be divided into four business lines including corporate banking, retail banking, treasury and others. The Group primarily provides financial services through these four business lines.

Segment assets, liabilities, revenues, operating results and capital expenditures are measured in accordance with the Group's accounting policies. The items of each segment include those which can be directly attributable to the segment or can be assigned to the segment based on reasonable criteria. As part of the management of assets and liabilities, the Group's capital resources and uses are allocated to various business segments through the treasury business. The Group's internal transfer pricing mechanism uses deposit and loan interest rates and market interest rates as the benchmark, and determines transfer prices with reference to different products and their maturity. The impact of internal trading has been offset when preparing the consolidated statements.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 5 Segment information (Continued)

Operating segments are presented as the following geographical and business segments:

### Geographical segments:

- (1) Northern China: including Minsheng Leasing, Ningjin Minsheng Township Bank Co., Ltd. (“Ningjin Township Bank”), Headquarter and the branches in Beijing, Taiyuan, Shijiazhuang and Tianjin.
- (2) Eastern China: including Cixi Minsheng Township Bank Co., Ltd. (“Cixi Township Bank”), Shanghai Songjiang Minsheng Township Bank Co., Ltd. (“Songjiang Township Bank”), Shanghai Jiading Minsheng Township Bank Co., Ltd. (“Jiading Township Bank”), Penglai Minsheng Township Bank Co., Ltd. (“Penglai Township Bank”), Funing Minsheng Township Bank Co., Ltd. (“Funing Township Bank”), Taicang Minsheng Township Bank Co., Ltd. (“Taicang Township Bank”) and the branches in Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei and Nanchang.
- (3) Southern China: including Minsheng Royal Fund Management, Anxi Minsheng Township Bank Co., Ltd. (“Anxi Township Bank”), Zhangpu Minsheng Township Bank Co., Ltd. (“Zhangpu Township Bank”) and the branches in Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou, Xiamen and Nanning.
- (4) Others: including Pengzhou Minsheng Township Bank Co., Ltd. (“Pengzhou Township Bank”), Qijiang Minsheng Township Bank Co., Ltd. (“Qijiang Township Bank”), Tongnan Minsheng Township Bank Co., Ltd. (“Tongnan Township Bank”), Meihekou Minsheng Township Bank Co., Ltd. (“Meihekou Township Bank”), Ziyang Minsheng Township Bank Co., Ltd. (“Ziyang Township Bank”), Wuhan Jiangxia Minsheng Township Bank Co., Ltd. (“Jiangxia Township Bank”), Changyuan Minsheng Township Bank Co., Ltd. (“Changyuan Township Bank”), Yidu Minsheng Township Bank Co., Ltd. (“Yidu Township Bank”), Zhongxiang Minsheng Township Bank Co., Ltd. (“Zhongxiang Township Bank”) and the branches in Xi’an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou, Changchun, Hohhot and Shenyang.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 5 Segment information (Continued)

### Geographical segments: (Continued)

#### Group

|  | 2011           |               |                |                 |                           | Total       |
|--|----------------|---------------|----------------|-----------------|---------------------------|-------------|
|  | Northern China | Eastern China | Southern China | Other locations | Inter-segment elimination |             |
| External net interest income                 | 19,910         | 22,835        | 8,416          | 13,660          | —                         | 64,821      |
| Inter-segment net interest (expense) /income | (1,824)        | 742           | 381            | 701             | —                         | —           |
| Net interest income                          | 18,086         | 23,577        | 8,797          | 14,361          | —                         | 64,821      |
| Fee and commission income                    | 10,718         | 2,773         | 974            | 1,526           | —                         | 15,991      |
| Fee and commission expense                   | (449)          | (233)         | (97)           | (111)           | —                         | (890)       |
| Net fee and commission income                | 10,269         | 2,540         | 877            | 1,415           | —                         | 15,101      |
| Operating expenses                           | (17,405)       | (9,011)       | (3,712)        | (5,321)         | —                         | (35,449)    |
| Impairment losses on assets                  | (1,664)        | (3,446)       | (1,061)        | (2,205)         | —                         | (8,376)     |
| Net other income                             | (101)          | 442           | 263            | 474             | —                         | 1,078       |
| Total profit                                 | 9,185          | 14,102        | 5,164          | 8,724           | —                         | 37,175      |
| Depreciation and amortization                | 706            | 239           | 149            | 199             | —                         | 1,293       |
| Capital expenditure                          | 5,051          | 429           | 333            | 512             | —                         | 6,325       |
| Segment assets                               | 1,299,472      | 754,749       | 278,661        | 470,410         | (581,210)                 | 2,222,082   |
| Deferred income tax assets                   |                |               |                |                 |                           | 6,982       |
| Total assets                                 |                |               |                |                 |                           | 2,229,064   |
| Segment liabilities/total liabilities        | (1,219,088)    | (736,461)     | (272,312)      | (448,303)       | 581,210                   | (2,094,954) |
| Credit commitments                           | 179,143        | 269,122       | 74,873         | 146,955         | —                         | 670,093     |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 5 Segment information (Continued)

### Geographical segments: (Continued)

#### Group (Continued)

|  | 2010           |               |                |                 |           | Inter-segment elimination | Total |
|--|----------------|---------------|----------------|-----------------|-----------|---------------------------|-------|
|  | Northern China | Eastern China | Southern China | Other locations |           |                           |       |
| External net interest income                 | 16,136         | 15,861        | 4,514          | 9,362           | —         | 45,873                    |       |
| Inter-segment net interest (expense) /income | (1,594)        | 488           | 837            | 269             | —         | —                         |       |
| Net interest income                          | 14,542         | 16,349        | 5,351          | 9,631           | —         | 45,873                    |       |
| Fee and commission income                    | 5,786          | 1,505         | 600            | 862             | —         | 8,753                     |       |
| Fee and commission expense                   | (235)          | (112)         | (64)           | (53)            | —         | (464)                     |       |
| Net fee and commission income                | 5,551          | 1,393         | 536            | 809             | —         | 8,289                     |       |
| Operating expenses                           | (12,258)       | (6,556)       | (2,852)        | (3,786)         | —         | (25,452)                  |       |
| Impairment losses on assets                  | (1,924)        | (2,227)       | (404)          | (949)           | —         | (5,504)                   |       |
| Net other income                             | (193)          | (36)          | (1)            | —               | —         | (230)                     |       |
| Total profit                                 | 5,718          | 8,923         | 2,630          | 5,705           | —         | 22,976                    |       |
| Depreciation and amortization                | 568            | 209           | 127            | 168             | —         | 1,072                     |       |
| Capital expenditure                          | 3,561          | 273           | 167            | 152             | —         | 4,153                     |       |
| Segment assets                               | 1,082,213      | 613,448       | 228,677        | 328,094         | (433,150) | 1,819,282                 |       |
| Deferred income tax assets                   |                |               |                |                 |           | 4,455                     |       |
| Total assets                                 |                |               |                |                 |           | 1,823,737                 |       |
| Segment liabilities/total liabilities        | (1,011,283)    | (599,242)     | (223,080)      | (318,025)       | 433,150   | (1,718,480)               |       |
| Credit commitments                           | 93,735         | 174,539       | 55,872         | 115,027         | —         | 439,173                   |       |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 5 Segment information (Continued)

### Business segments:

The Group provides services through four business segments: corporate banking, personal banking, treasury and others.

Corporate banking — providing banking products and services for corporate customers, government agencies and financial institutions. These products and services include deposits, loans, trust, trade-related products and other credit services and foreign currency.

Personal banking — providing banking products and services for individual clients. These products and services include savings deposits, investment savings products, credit and debit cards, Shang Dai Tong, residential mortgage and consumer credit.

Treasury — including foreign exchange trading, interest rate and foreign exchange derivatives transactions, money market transactions, proprietary trading, and asset-liability management. This segment's operating results include gains and losses from foreign currency translation and the impact of interest-bearing assets and liabilities on internal fund flows and profit and loss.

Others — the Group's other businesses including the Group's investments and any other business which cannot form a single reportable segment.

As the total revenue of the Group's business segments is mainly derived from interest and the Group's senior management relies primarily on net interest income to assess each segment's performance, the total interest income and expense for all reportable segments is disclosed on a net basis.

The revenue from external parties reported to the Group's senior management is reported in a manner consistent with that in the consolidated income statement. Inter-segment transactions are eliminated.

Funds are normally allocated among segments, and inter-segment net interest income is based on the Group's capital cost. There are no other material items of income or expense between the business segments.

Internal transfer pricing is adjusted based on the nature of each transaction. Revenues from external customers are allocated to each business segment on a reasonable basis.

The Group's management report is based on a measure of operating profit comprising net interest income, loan impairment losses, net fee and commission income, other income and non-interest expenses. Non-recurring gains and losses are excluded in the measure of operating profit. Non-recurring gains and losses should be allocated to other business lines.

Segment assets include all tangible and intangible assets, other long-term assets, receivables and other assets with the exception of deferred tax assets. Segment liabilities include all the liabilities attributable to the segments.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 5 Segment information (Continued)

### Business segments: (Continued)

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

#### Group

|  | Corporate<br>banking | Personal<br>banking | 2011          |              | Total            |
|--|----------------------|---------------------|---------------|--------------|------------------|
|  |                      |                     | Treasury      | Others       |                  |
| Net interest income  | 28,531               | 18,214              | 16,847        | 1,229        | 64,821           |
| Of which: inter-segment net interest<br>(expense)/income           | (2,827)              | (3,348)             | 6,171         | 4            | —                |
| Net fee and commission income                                      | 8,938                | 3,126               | 2,378         | 659          | 15,101           |
| Of which: inter-segment net fee and<br>commission income/(expense) | 8                    | —                   | —             | (8)          | —                |
| Operating expenses   | (16,604)             | (9,898)             | (8,789)       | (158)        | (35,449)         |
| Impairment losses on assets  | (3,686)              | (4,285)             | —             | (405)        | (8,376)          |
| Other net income   | 646                  | (4)                 | 501           | (65)         | 1,078            |
| <b>Total profit</b>  | <b>17,825</b>        | <b>7,153</b>        | <b>10,937</b> | <b>1,260</b> | <b>37,175</b>    |
| Depreciation and amortisation                                      | 423                  | 285                 | 256           | 329          | 1,293            |
| Capital expenditure  | 2,654                | 1,555               | 1,392         | 724          | 6,325            |
| Segment assets   | 961,612              | 364,499             | 830,410       | 65,561       | 2,222,082        |
| Deferred income tax assets   |                      |                     |               |              | 6,982            |
| <b>Total assets</b>  |                      |                     |               |              | <b>2,229,064</b> |
| Segment liabilities/total liabilities                              | (1,362,023)          | (321,634)           | (339,917)     | (71,380)     | (2,094,954)      |
| Credit commitments   | 654,707              | 12,578              | —             | 2,808        | 670,093          |



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 5 Segment information (Continued)

### Business segments: (Continued)

#### Group (Continued)

|  | Corporate<br>banking | Personal<br>banking | 2010         |            | Total            |
|--|----------------------|---------------------|--------------|------------|------------------|
|  |                      |                     | Treasury     | Others     |                  |
| Net interest income  | 25,838               | 7,659               | 11,496       | 880        | 45,873           |
| Of which: inter-segment net interest<br>(expense)/income           | (827)                | (1,459)             | 2,286        | —          | —                |
| Net fee and commission income                                      | 5,252                | 1,470               | 1,125        | 442        | 8,289            |
| Of which: inter-segment net fee and<br>commission income/(expense) | 44                   | —                   | —            | (44)       | —                |
| Operating expenses   | (15,684)             | (4,798)             | (4,885)      | (85)       | (25,452)         |
| Impairment losses on assets  | (4,460)              | (892)               | 64           | (216)      | (5,504)          |
| Other net income   | (571)                | (3)                 | 557          | (213)      | (230)            |
| <b>Total profit</b>  | <b>10,375</b>        | <b>3,436</b>        | <b>8,357</b> | <b>808</b> | <b>22,976</b>    |
| Depreciation and amortisation                                      | 450                  | 135                 | 140          | 347        | 1,072            |
| Capital expenditure  | 2,986                | 204                 | 211          | 752        | 4,153            |
| Segment assets   | 765,678              | 281,331             | 731,024      | 41,249     | 1,819,282        |
| Deferred income tax assets   |                      |                     |              |            | 4,455            |
| <b>Total assets</b>  |                      |                     |              |            | <b>1,823,737</b> |
| Segment liabilities/total liabilities                              | (1,194,969)          | (231,269)           | (243,194)    | (49,048)   | (1,718,480)      |
| Credit commitments   | 418,657              | 18,618              | —            | 1,898      | 439,173          |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 6 Net interest income

|   | 2011     | 2010     |
|---|----------|----------|
| Interest income arising from:   |          |          |
| – Loans and advances to customers                                     |          |          |
| – corporate loans and advances  | 55,125   | 41,394   |
| – personal loans and advances   | 22,846   | 12,080   |
| – discounted bills  | 2,987    | 2,744    |
| – Financial assets held under resale agreements                       | 12,254   | 1,851    |
| – Balances with banks and other financial institutions                | 8,182    | 1,808    |
| – Investment securities   | 6,553    | 5,272    |
| – Balances with central bank  | 4,261    | 2,912    |
| – Finance lease receivables   | 3,528    | 1,853    |
| – Placements with banks and other financial institutions              | 1,545    | 862      |
| Subtotal  | 117,281  | 70,776   |
| Interest expense arising from:  |          |          |
| – Deposits from customers   | (30,977) | (18,592) |
| – Deposits and placements from banks and other financial institutions | (16,272) | (4,063)  |
| – Financial assets sold under repurchase agreements                   | (2,047)  | (646)    |
| – Borrowings from banks and other financial institutions              | (1,756)  | (647)    |
| – Debt securities issued  | (1,408)  | (955)    |
| Subtotal  | (52,460) | (24,903) |
| Net interest income   | 64,821   | 45,873   |
| Of which:   |          |          |
| Interest income from impaired financial assets identified             | 246      | 170      |

## 7 Net fee and commission income

|                                      | 2011   | 2010  |
|--------------------------------------|--------|-------|
| Fee and commission income            |        |       |
| – Trust and other fiduciary services | 4,072  | 1,764 |
| – Financial advisory services        | 3,614  | 2,389 |
| – Credit commitments                 | 2,362  | 1,462 |
| – Bank card services                 | 2,124  | 1,007 |
| – Settlement services                | 1,686  | 924   |
| – Finance lease services             | 670    | 469   |
| – Securities underwriting services   | 494    | 335   |
| – Others                             | 969    | 403   |
| Fee and commission income            | 15,991 | 8,753 |
| Fee and commission expense           | (890)  | (464) |
| Net fee and commission income        | 15,101 | 8,289 |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 8 Net trading gain

|   | 2011 | 2010  |
|---|------|-------|
| Gain on exchange rate instruments                 | 352  | 539   |
| Gain/(loss) on precious metals and other products | 98   | (168) |
| Gain/(loss) on interest rate instruments          | 34   | (87)  |
| Total   | 484  | 284   |

## 9 Net gain arising from disposals of securities and discounted bills

|   | 2011  | 2010 |
|---|-------|------|
| Net gain arising from disposals of discounted bills | 1,731 | —    |
| Net gain arising from disposals of securities       | 59    | 221  |
| Total   | 1,790 | 221  |

The Bank updated its acceptance system and changed the accounting treatment of the gain or loss arising from the disposal of discounted bills in 2011. After the system update, the difference between the discounted interest income unamortised and rediscounted interest costs is recognised as disposal gain or loss, while it was recognised as interest income in prior years.

## 10 Impairment losses on assets

|                                 | 2011  | 2010  |
|---------------------------------|-------|-------|
| Loans and advances to customers | 7,973 | 5,303 |
| Finance lease receivables       | 396   | 195   |
| Available-for-sale securities   | —     | (64)  |
| Other assets                    | 7     | 70    |
| Total                           | 8,376 | 5,504 |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 11 Operating expenses

|  | 2011   | 2010   |
|--|--------|--------|
| Staff costs, including directors' emoluments |        |        |
| – Salaries and bonuses                       | 11,644 | 7,839  |
| – Social insurance                           | 1,709  | 1,280  |
| – Other benefits                             | 2,250  | 1,723  |
| Business tax and surcharges                  | 6,116  | 3,827  |
| Business development expenses                | 2,716  | 1,921  |
| Office expenses                              | 1,878  | 1,900  |
| Rental expenses                              | 1,538  | 1,257  |
| Electronic equipment operating expenses      | 1,634  | 1,170  |
| Depreciation and amortisation                | 1,293  | 1,041  |
| Automobile expenses                          | 558    | 491    |
| Mailing and telegraph expenses               | 410    | 366    |
| Travelling expenses                          | 380    | 368    |
| Conference expenses                          | 323    | 270    |
| CBRC supervisory charges                     | 122    | 103    |
| Others                                       | 2,878  | 1,896  |
| Total  | 35,449 | 25,452 |

Auditors' remuneration included in the operating expenses for the year ended 31 December 2011 was RMB9 million (2010: RMB8 million).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 12 Directors and Supervisors' emoluments

For the year ended 31 December 2011 (in thousands of RMB)

|                              | 2011                                    |                                  |                     | Total <sup>(1)</sup> |
|------------------------------|---|----------------------------------|---------------------|----------------------|
|                              | Basic salaries, allowances and benefits | Contributions to pension schemes | Discretionary bonus |                      |
| Dong Wenbiao <sup>(1)</sup>  | 4,289                                   | 332                              | 542                 | 5,163                |
| Hong Qi <sup>(1)</sup>       | 4,274                                   | 306                              | 535                 | 5,115                |
| Qiao Zhimin <sup>(1)</sup>   | 3,930                                   | 281                              | 516                 | 4,727                |
| Liang Yutang <sup>(1)</sup>  | 3,535                                   | 256                              | 496                 | 4,287                |
| Chen Jinzhong                | 2,064                                   | 156                              | 1,859               | 4,079                |
| Wang Lei                     | 2,032                                   | 163                              | 1,780               | 3,975                |
| Andrew Wong                  | 1,265                                   | —                                | —                   | 1,265                |
| Wang Songqi                  | 1,015                                   | —                                | —                   | 1,015                |
| Han Jianmin                  | 930                                     | —                                | —                   | 930                  |
| Wang Hang                    | 900                                     | —                                | —                   | 900                  |
| Zhang Hongwei                | 895                                     | —                                | —                   | 895                  |
| Lu Zhiqiang                  | 875                                     | —                                | —                   | 875                  |
| Wang Lihua                   | 860                                     | —                                | —                   | 860                  |
| Liu Yonghao                  | 845                                     | —                                | —                   | 845                  |
| Wang Yugui                   | 845                                     | —                                | —                   | 845                  |
| Wong Hei                     | 820                                     | —                                | —                   | 820                  |
| Shi Yuzhu                    | 800                                     | —                                | —                   | 800                  |
| Xing Jijun                   | 796                                     | —                                | —                   | 796                  |
| Wang Junhui                  | 790                                     | —                                | —                   | 790                  |
| Chen Jian                    | 710                                     | —                                | —                   | 710                  |
| Wang Liang                   | 710                                     | —                                | —                   | 710                  |
| Xu Rui                       | 700                                     | —                                | —                   | 700                  |
| Lu Zhongnan                  | 665                                     | —                                | —                   | 665                  |
| Zhang Disheng                | 605                                     | —                                | —                   | 605                  |
| Qin Rongsheng <sup>(2)</sup> | —                                       | —                                | —                   | —                    |
| Liang Jinquan <sup>(2)</sup> | —                                       | —                                | —                   | —                    |

(1) The Bank defers part of the performance-based compensations to the executive directors and the chairman of the supervisory board, which are not included in the above disclosure. For details of the deferred payments, please refer to Note 43.

(2) Qin Rongsheng, Liang Jinquan waived emoluments for the year ended 31 December 2011.

(3) The emoluments before tax of executive directors and the chairman of the supervisory board haven't been confirmed, the Group will make further disclosure upon confirmation.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 12 Directors and Supervisors' emoluments (Continued)

For the year ended 31 December 2010 (in thousands of RMB)

|                             | 2010                                    |                                  |                     | Total <sup>(1)</sup> |
|-----------------------------|---|----------------------------------|---------------------|----------------------|
|                             | Basic salaries, allowances and benefits | Contributions to pension schemes | Discretionary bonus |                      |
| Dong Wenbiao <sup>(1)</sup> | 4,353                                   | 328                              | 2,474               | 7,155                |
| Hong Qi <sup>(1)</sup>      | 4,068                                   | 303                              | 2,474               | 6,845                |
| Qiao Zhimin <sup>(1)</sup>  | 3,672                                   | 278                              | 2,461               | 6,411                |
| Liang Yutang <sup>(1)</sup> | 3,356                                   | 253                              | 2,087               | 5,696                |
| Chen Jinzhong               | 1,878                                   | 154                              | 1,940               | 3,972                |
| Wang Lei                    | 1,844                                   | 160                              | 1,844               | 3,848                |
| Andrew Wong                 | 1,110                                   | —                                | —                   | 1,110                |
| Qin Rongsheng               | 1,045                                   | —                                | —                   | 1,045                |
| Han Jianmin                 | 940                                     | —                                | —                   | 940                  |
| Wang Songqi                 | 940                                     | —                                | —                   | 940                  |
| Zhang Hongwei               | 860                                     | —                                | —                   | 860                  |
| Wang Lihua                  | 850                                     | —                                | —                   | 850                  |
| Lu Zhiqiang                 | 840                                     | —                                | —                   | 840                  |
| Wang Hang                   | 825                                     | —                                | —                   | 825                  |
| Liu Yonghao                 | 795                                     | —                                | —                   | 795                  |
| Wong Hei                    | 785                                     | —                                | —                   | 785                  |
| Wang Junhui                 | 780                                     | —                                | —                   | 780                  |
| Xing Jijun                  | 756                                     | —                                | —                   | 756                  |
| Shi Yuzhu                   | 755                                     | —                                | —                   | 755                  |
| Wang Yugui                  | 750                                     | —                                | —                   | 750                  |
| Chen Jian                   | 680                                     | —                                | —                   | 680                  |
| Xu Rui                      | 665                                     | —                                | —                   | 665                  |
| Wang Liang                  | 660                                     | —                                | —                   | 660                  |
| Lu Zhongnan                 | 650                                     | —                                | —                   | 650                  |
| Zhang Disheng               | 605                                     | —                                | —                   | 605                  |
| Liang Jinqun <sup>(2)</sup> | —                                       | —                                | —                   | —                    |

(1) The above were actual amounts paid. In addition, the Bank defers part of the performance-based compensations to the executive directors and the chairman of the supervisory board, which are not included in the above disclosure. For details of the deferred payments, please refer to Note 43.

(2) Liang Jinqun waived emoluments for the year ended 31 December 2010.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 12 Directors and Supervisors' emoluments (Continued)

Of the five highest-paid individuals of the Group, five of them are members of the board of directors or supervisors (2010: 4), as shown in the above table. There was one individual who was not a member of the board of directors or the supervisory board in 2010, as shown below:

|   | 2011 | 2010  |
|---|------|-------|
| Basic salaries, allowances and benefits | —    | 2,496 |
| Contributions to pension schemes        | —    | 266   |
| Discretionary bonus                     | —    | 2,087 |
| Total                                   | —    | 4,849 |

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

## 13 Income tax expense

Taxation in the consolidated income statement represents the income tax in Mainland China:

|                                   | 2011    | 2010    |
|-----------------------------------|---------|---------|
| Current tax for the year          | 11,324  | 6,456   |
| Adjustment for prior years        | (5)     | (28)    |
| Subtotal                          | 11,319  | 6,428   |
| Changes in deferred tax (Note 25) | (2,587) | (1,140) |
| Total                             | 8,732   | 5,288   |

The applicable income tax rate (except for Shenzhen branch) is 25% for the year ended 31 December 2011 (2010: 25%). For Shenzhen branch, the applicable income tax rate is 24% for the year ended 31 December 2011 (2010: 22%).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 13 Income tax expense (Continued)

Reconciliation between income tax expense and accounting profit of the Group is listed as follows:

|  | 2011   | 2010   |
|--|--------|--------|
| Profit before income tax               | 37,175 | 22,976 |
| Income tax at the applicable tax rates | 9,293  | 5,737  |
| Effect of non-taxable income (i)       | (698)  | (528)  |
| Effect of non-deductible expenses(ii)  | 135    | 105    |
| Others                                 | 2      | (26)   |
| Income tax expense                     | 8,732  | 5,288  |

(i) The non-taxable income mainly represents interest income arising from PRC government bonds and municipal bonds, which are exempted from income tax.

(ii) The non-deductible expenses mainly represent non-deductible entertainment expenses.

## 14 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to ordinary equity shareholders of the Bank by the weighted average number of ordinary shares in issue during the year. The Group has no potentially dilutive ordinary shares for the year ended 31 December 2011 and 2010.

The Bank distributed stock dividends to registered shareholders as at 14 July 2010, based on the total share capital as at 31 December 2009. The Bank distributed 2 bonus shares for every 10 shares, with a total of 4,452,455,498 bonus shares. In the calculation of earnings per share, the weighted average number of ordinary shares issued for the period in 2011 and the comparative period in 2010 (adjusted retrospectively) were calculated as if the bonus shares had existed from the beginning of the comparative period.

|   | 2011   | 2010   |
|---|--------|--------|
| Net profit attributable to ordinary equity shareholders of the Bank | 27,920 | 17,581 |
| Weighted average number of ordinary shares in issue (in millions)   | 26,715 | 26,715 |
| Basic/diluted earnings per share (in RMB)                           | 1.05   | 0.66   |



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 15 Cash and balances with central bank

|                              | Group          |                | Bank           |                |
|------------------------------|----------------|----------------|----------------|----------------|
|                              | 2011           | 2010           | 2011           | 2010           |
| Cash                         | 5,175          | 4,597          | 5,102          | 3,996          |
| Balances with central bank   |                |                |                |                |
| — Statutory deposit reserves | 278,045        | 198,224        | 276,428        | 197,703        |
| — Surplus deposit reserves   | 49,174         | 64,004         | 48,957         | 63,915         |
| — Fiscal deposits            | 411            | 10             | 411            | 10             |
| <b>Total</b>                 | <b>332,805</b> | <b>266,835</b> | <b>330,898</b> | <b>265,624</b> |

The Group places statutory deposit reserves with the PBOC. The statutory deposit reserves are not available for use in the Group's daily business. As at 31 December 2011, the statutory deposit reserve rate applicable to the Bank for RMB deposits is 19% and the reserve rate for foreign currency deposits is 5% (2010: 17% of RMB deposits and 5% of foreign currency deposits).

The 18 township banking subsidiaries of the Bank abide by the statutory RMB deposit reserve rates applicable as determined by the PBOC.

Surplus deposit reserves maintained with the PBOC is for the purposes of clearing interbank transactions.

## 16 Balances with banks and other financial institutions

|                                | Group          |                | Bank           |                |
|--------------------------------|----------------|----------------|----------------|----------------|
|                                | 2011           | 2010           | 2011           | 2010           |
| Mainland China                 |                |                |                |                |
| — Banks                        | 221,500        | 117,445        | 219,354        | 116,840        |
| — Other financial institutions | 2,076          | 2,535          | 2,076          | 2,535          |
| Overseas                       |                |                |                |                |
| — Banks                        | 8,760          | 5,301          | 8,760          | 5,301          |
| — Other financial institutions | —              | 181            | —              | 181            |
| <b>Total</b>                   | <b>232,336</b> | <b>125,462</b> | <b>230,190</b> | <b>124,857</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 17 Trading financial assets

|                                       | Group and Bank |       |
|---------------------------------------|----------------|-------|
|                                       | 2011           | 2010  |
| Government and quasi-government bonds | 13,851         | 4,823 |
| Corporate bonds                       | 6,572          | 1,201 |
| Total                                 | 20,423         | 6,024 |

The financial statements classified debt securities traded on China Domestic Interbank Bond Market as listed bonds. All of the above bonds are listed in Mainland China.

## 18 Derivatives

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

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

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

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

The notional amount of derivatives provides a basis for comparison with fair value recognised on the statement of financial position but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the derivatives and, therefore, does not indicate the Group's exposure to credit or market risks. The valuation of the derivatives becomes favourable (assets) or unfavourable (liabilities) to the Group as a result of fluctuations in market interest rates or foreign exchange rates or equity/commodity prices relative to their terms. The valuation of derivatives can fluctuate significantly from time to time.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 18 Derivatives (Continued)

The notional amount and fair value of unexpired derivative financial instruments held by the Group and the Bank are set out in the following tables:

### Group and Bank

|                           | 2011            |            |              |
|---------------------------|-----------------|------------|--------------|
|                           | Notional amount | Fair value |              |
|                           |                 | Assets     | Liabilities  |
| Interest rate swaps       | 37,069          | 351        | (371)        |
| Foreign exchange forwards | 38,183          | 106        | (85)         |
| Currency swaps            | 29,719          | 129        | (150)        |
| Precious metal swaps      | 2,818           | —          | (180)        |
| Credit default swaps      | 132             | 1          | (1)          |
| Extension options         | 8,300           | —          | —            |
| <b>Total</b>              |                 | <b>587</b> | <b>(787)</b> |

|                           | 2010            |            |              |
|---------------------------|-----------------|------------|--------------|
|                           | Notional amount | Fair value |              |
|                           |                 | Assets     | Liabilities  |
| Interest rate swaps       | 21,277          | 319        | (260)        |
| Foreign exchange forwards | 11,215          | 77         | (66)         |
| Currency swaps            | 18,171          | 63         | (41)         |
| Precious metal swaps      | 762             | 16         | —            |
| Credit default swaps      | 366             | 1          | (1)          |
| Extension options         | 8,300           | —          | —            |
| <b>Total</b>              |                 | <b>476</b> | <b>(368)</b> |

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

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 18 Derivatives (Continued)

### Credit risk weighted amount

|                         | Group and Bank |           |
|-------------------------|----------------|-----------|
|                         | 2011           | 2010      |
| Exchange rate contracts | 166            | 12        |
| Interest rate contracts | 190            | 48        |
| <b>Total</b>            | <b>356</b>     | <b>60</b> |

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

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

## 19 Placements with banks and other financial institutions

|                                | Group and Bank |               |
|--------------------------------|----------------|---------------|
|                                | 2011           | 2010          |
| Mainland China                 |                |               |
| – Banks                        | 3,450          | 4,111         |
| – Other financial institutions | 26,695         | 22,842        |
| – Others*                      | 7,600          | 9,500         |
| <b>Total</b>                   | <b>37,745</b>  | <b>36,453</b> |

\* Others are short-term placements with wealth management products managed by the Bank as an agency.

## 20 Financial assets held under resale agreements

|                                       | Group and Bank |                |
|---------------------------------------|----------------|----------------|
|                                       | 2011           | 2010           |
| Discounted bills                      | 129,508        | 104,801        |
| Government and quasi-government bonds | 9,361          | 5,708          |
| Finance lease receivables             | 2,153          | 2,343          |
| Corporate loans                       | –              | 80             |
| <b>Total</b>                          | <b>141,022</b> | <b>112,932</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 21 Loans and advances to customers

|                                       | Group     |           | Bank      |           |
|---------------------------------------|-----------|-----------|-----------|-----------|
|                                       | 2011      | 2010      | 2011      | 2010      |
| Corporate loans and advances          |           |           |           |           |
| — Corporate loans                     | 808,823   | 752,639   | 805,017   | 750,501   |
| — Discounted bills                    | 13,960    | 11,931    | 13,578    | 11,847    |
| — Others                              | 18,335    | 13,839    | 18,311    | 13,839    |
| Subtotal                              | 841,118   | 778,409   | 836,906   | 776,187   |
| Personal loans and advances           |           |           |           |           |
| — Shang Dai Tong*                     | 232,495   | 158,986   | 232,495   | 158,986   |
| — Residential mortgage                | 83,337    | 97,494    | 82,998    | 97,494    |
| — Credit cards                        | 38,551    | 16,432    | 38,551    | 16,432    |
| — Others                              | 9,720     | 6,250     | 7,405     | 4,973     |
| Subtotal                              | 364,103   | 279,162   | 361,449   | 277,885   |
| Gross balance                         | 1,205,221 | 1,057,571 | 1,198,355 | 1,054,072 |
| Less: allowance for impairment losses |           |           |           |           |
| — Individual assessment               | (3,283)   | (3,583)   | (3,283)   | (3,583)   |
| — Collective assessment               | (23,653)  | (16,265)  | (23,556)  | (16,229)  |
| Subtotal                              | (26,936)  | (19,848)  | (26,839)  | (19,812)  |
| Net balance                           | 1,178,285 | 1,037,723 | 1,171,516 | 1,034,260 |

\* Shang Dai Tong is a line of loan products offered to the small micro enterprise owners and proprietors.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 21 Loans and advances to customers (Continued)

### (1) Loans and advances to customers analysed by methods for assessing allowances for impairment losses

#### Group

|                                 | 2011   |  |  |          |           |
|---------------------------------|--|--|--|----------|-----------|
|                                 | Loans and advances for which allowances are collectively assessed (Note (i)) | Impaired loans and advances (Note (ii))        |  | Subtotal | Total     |
|                                 |  | for which allowances are collectively assessed | for which allowances are individually assessed |          |           |
| Gross balance                   |  |  |  |          |           |
| — Corporate loans and advances  | 834,577  | —  | 6,541  | 6,541    | 841,118   |
| — Personal loans and advances   | 363,105  | 998  | —  | 998      | 364,103   |
| Allowance for impairment losses | (23,033)   | (620)  | (3,283)  | (3,903)  | (26,936)  |
| Net balance                     | 1,174,649  | 378  | 3,258  | 3,636    | 1,178,285 |

|                                 | 2010   |  |  |          |           |
|---------------------------------|--|--|--|----------|-----------|
|                                 | Loans and advances for which allowances are collectively assessed (Note (i)) | Impaired loans and advances (Note (ii))        |  | Subtotal | Total     |
|                                 |  | for which allowances are collectively assessed | for which allowances are individually assessed |          |           |
| Gross balance                   |  |  |  |          |           |
| — Corporate loans and advances  | 771,871  | —  | 6,538  | 6,538    | 778,409   |
| — Personal loans and advances   | 278,361  | 801  | —  | 801      | 279,162   |
| Allowance for impairment losses | (15,651)   | (614)  | (3,583)  | (4,197)  | (19,848)  |
| Net balance                     | 1,034,581  | 187  | 2,955  | 3,142    | 1,037,723 |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 21 Loans and advances to customers (Continued)

### (1) Loans and advances to customers analysed by methods for assessing allowances for impairment losses (Continued)

#### Bank

|                                 | 2011   |  |  |          |           |
|---------------------------------|--|--|--|----------|-----------|
|                                 | Loans and advances for which allowances are collectively assessed (Note (i)) | Impaired loans and advances (Note (ii))        |  | Subtotal | Total     |
|                                 |  | for which allowances are collectively assessed | for which allowances are individually assessed |          |           |
| Gross balance                   |  |  |  |          |           |
| – Corporate loans and advances  | 830,365  | –  | 6,541  | 6,541    | 836,906   |
| – Personal loans and advances   | 360,453  | 996  | –  | 996      | 361,449   |
| Allowance for impairment losses | (22,938)   | (618)  | (3,283)  | (3,901)  | (26,839)  |
| Net balance                     | 1,167,880  | 378  | 3,258  | 3,636    | 1,171,516 |

|                                 | 2010   |  |  |          |           |
|---------------------------------|--|--|--|----------|-----------|
|                                 | Loans and advances for which allowances are collectively assessed (Note (i)) | Impaired loans and advances (Note (ii))        |  | Subtotal | Total     |
|                                 |  | for which allowances are collectively assessed | for which allowances are individually assessed |          |           |
| Gross balance                   |  |  |  |          |           |
| – Corporate loans and advances  | 769,649  | –  | 6,538  | 6,538    | 776,187   |
| – Personal loans and advances   | 277,084  | 801  | –  | 801      | 277,885   |
| Allowance for impairment losses | (15,615)   | (614)  | (3,583)  | (4,197)  | (19,812)  |
| Net balance                     | 1,031,118  | 187  | 2,955  | 3,142    | 1,034,260 |

(i) Loans and advances for which allowance is collectively assessed include those graded pass or special mention.

(ii) Impaired loans and advances include those with objective evidence of impairment and are assessed:

- individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
- collectively; these are portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

(iii) The definitions of the loan classifications stated in Notes (i) and (ii) above are set out in Note 3(2)(i).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 21 Loans and advances to customers (Continued)

### (1) Loans and advances to customers analysed by methods for assessing allowances for impairment losses (Continued)

(iv) As at 31 December 2011, the loans and advances of the Group and the Bank for which the impairment allowances were individually assessed amounted to RMB6,541 million (2010: RMB6,538 million). The covered portion and uncovered portion of these loans and advances were RMB4,164 million (2010: RMB4,068 million) and RMB2,377 million (2010: RMB2,470 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB2,781 million (2010: RMB2,675 million). As at 31 December 2011, the individual impairment allowances made for these loans and advances were RMB3,283 million (2010: RMB3,583 million).

### (2) Loans and advances to customers analysed by industries

|   | Group          |        |                |        | Bank           |        |                |        |
|---|----------------|--------|----------------|--------|----------------|--------|----------------|--------|
|   | 2011<br>Amount | (%)    | 2010<br>Amount | (%)    | 2011<br>Amount | (%)    | 2010<br>Amount | (%)    |
| Corporate loans and advances                            |                |        |                |        |                |        |                |        |
| Manufacturing   | 186,664        | 15.49  | 143,036        | 13.51  | 184,727        | 15.42  | 141,974        | 13.46  |
| Real estate   | 129,740        | 10.76  | 129,424        | 12.23  | 129,740        | 10.83  | 129,411        | 12.28  |
| Leasing and commercial services                         | 116,510        | 9.67   | 107,736        | 10.19  | 116,447        | 9.72   | 107,719        | 10.22  |
| Wholesale and retail                                    | 94,756         | 7.86   | 62,031         | 5.87   | 94,030         | 7.85   | 61,409         | 5.83   |
| Mining  | 64,586         | 5.36   | 61,845         | 5.85   | 64,579         | 5.39   | 61,845         | 5.87   |
| Transportation, storage and postal service              | 62,208         | 5.16   | 69,248         | 6.55   | 62,176         | 5.19   | 69,247         | 6.57   |
| Water, environment and public utilities management      | 36,578         | 3.03   | 53,798         | 5.09   | 36,568         | 3.05   | 53,798         | 5.10   |
| Construction  | 31,202         | 2.59   | 26,237         | 2.48   | 30,906         | 2.58   | 26,133         | 2.48   |
| Public administration and social organisations          | 28,972         | 2.40   | 32,567         | 3.08   | 28,722         | 2.40   | 32,447         | 3.08   |
| Production and supply of electric power, gas and water  | 26,818         | 2.23   | 31,712         | 3.00   | 26,811         | 2.24   | 31,712         | 3.01   |
| Education and community services                        | 19,904         | 1.65   | 24,277         | 2.30   | 19,871         | 1.66   | 24,260         | 2.30   |
| Financial services                                      | 19,331         | 1.60   | 18,112         | 1.71   | 19,054         | 1.59   | 18,112         | 1.72   |
| Information transmission, computer service and software | 4,574          | 0.38   | 3,933          | 0.37   | 4,545          | 0.38   | 3,933          | 0.37   |
| Others  | 19,275         | 1.61   | 14,453         | 1.37   | 18,730         | 1.55   | 14,187         | 1.35   |
| Subtotal  | 841,118        | 69.79  | 778,409        | 73.60  | 836,906        | 69.85  | 776,187        | 73.64  |
| Personal loans and advances                             | 364,103        | 30.21  | 279,162        | 26.40  | 361,449        | 30.15  | 277,885        | 26.36  |
| Total   | 1,205,221      | 100.00 | 1,057,571      | 100.00 | 1,198,355      | 100.00 | 1,054,072      | 100.00 |

Note 3(2)(ix) illustrates the loans and advances to customers analysed by geographical segments.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 21 Loans and advances to customers (Continued)

### (3) Loans and advances to customers analysed by types of collateral

|  | Group            |               |                  |               | Bank             |               |                  |               |
|--|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
|  | 2011             |               | 2010             |               | 2011             |               | 2010             |               |
|  | Amount           | (%)           | Amount           | (%)           | Amount           | (%)           | Amount           | (%)           |
| Unsecured loans                              | 179,185          | 14.87         | 177,165          | 16.75         | 179,120          | 14.95         | 177,150          | 16.80         |
| Guaranteed loans                             | 368,321          | 30.56         | 296,146          | 28.00         | 364,178          | 30.39         | 293,635          | 27.86         |
| Loans secured by                             |                  |               |                  |               |                  |               |                  |               |
| – tangible assets other than monetary assets | 519,191          | 43.08         | 492,037          | 46.53         | 517,170          | 43.15         | 491,174          | 46.60         |
| – monetary assets                            | 138,524          | 11.49         | 92,223           | 8.72          | 137,887          | 11.51         | 92,113           | 8.74          |
| <b>Total</b>                                 | <b>1,205,221</b> | <b>100.00</b> | <b>1,057,571</b> | <b>100.00</b> | <b>1,198,355</b> | <b>100.00</b> | <b>1,054,072</b> | <b>100.00</b> |

### (4) Overdue loans analysed by overdue period

| Group  | 2011               |                |              |                   |  | Total         |
|--|--------------------|----------------|--------------|-------------------|--|---------------|
|  | Less than 3 months | 3 to 12 months | 1 to 3 years | More than 3 years |  |               |
| Unsecured loans                              | 1,911              | 291            | 88           | 332               |  | 2,622         |
| Guaranteed loans                             | 195                | 716            | 338          | 876               |  | 2,125         |
| Loans secured by                             |                    |                |              |                   |  |               |
| – tangible assets other than monetary assets | 2,482              | 1,877          | 469          | 630               |  | 5,458         |
| – monetary assets                            | 44                 | 13             | 36           | 25                |  | 118           |
| <b>Total</b>                                 | <b>4,632</b>       | <b>2,897</b>   | <b>931</b>   | <b>1,863</b>      |  | <b>10,323</b> |
| % of total loans and advances                | <b>0.39%</b>       | <b>0.24%</b>   | <b>0.08%</b> | <b>0.15%</b>      |  | <b>0.86%</b>  |

| Group  | 2010               |                |              |                   |  | Total        |
|--|--------------------|----------------|--------------|-------------------|--|--------------|
|  | Less than 3 months | 3 to 12 months | 1 to 3 years | More than 3 years |  |              |
| Unsecured loans                              | 872                | 171            | 240          | 303               |  | 1,586        |
| Guaranteed loans                             | 90                 | 204            | 725          | 1,072             |  | 2,091        |
| Loans secured by                             |                    |                |              |                   |  |              |
| – tangible assets other than monetary assets | 2,002              | 347            | 1,386        | 448               |  | 4,183        |
| – monetary assets                            | 64                 | 7              | 36           | 29                |  | 136          |
| <b>Total</b>                                 | <b>3,028</b>       | <b>729</b>     | <b>2,387</b> | <b>1,852</b>      |  | <b>7,996</b> |
| % of total loans and advances                | <b>0.28%</b>       | <b>0.07%</b>   | <b>0.23%</b> | <b>0.18%</b>      |  | <b>0.76%</b> |

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 21 Loans and advances to customers (Continued)

### (4) Overdue loans analysed by overdue period (Continued)

#### Bank

|   | 2011                  |                   |                 |                      | Total         |
|---|-----------------------|-------------------|-----------------|----------------------|---------------|
|   | Less than<br>3 months | 3 to 12<br>months | 1 to 3<br>years | More than<br>3 years |               |
| Unsecured loans                                 | 1,911                 | 290               | 88              | 332                  | 2,621         |
| Guaranteed loans                                | 195                   | 716               | 338             | 876                  | 2,125         |
| Loans secured by                                |                       |                   |                 |                      |               |
| — tangible assets other than<br>monetary assets | 2,482                 | 1,875             | 469             | 630                  | 5,456         |
| — monetary assets                               | 44                    | 13                | 36              | 25                   | 118           |
| <b>Total</b>                                    | <b>4,632</b>          | <b>2,894</b>      | <b>931</b>      | <b>1,863</b>         | <b>10,320</b> |
| % of total loans and advances                   | 0.39%                 | 0.24%             | 0.08%           | 0.15%                | 0.86%         |

|   | 2010                  |                   |                 |                      | Total        |
|---|-----------------------|-------------------|-----------------|----------------------|--------------|
|   | Less than<br>3 months | 3 to 12<br>months | 1 to 3<br>years | More than<br>3 years |              |
| Unsecured loans                                 | 872                   | 171               | 240             | 303                  | 1,586        |
| Guaranteed loans                                | 90                    | 204               | 725             | 1,072                | 2,091        |
| Loans secured by                                |                       |                   |                 |                      |              |
| — tangible assets other than<br>monetary assets | 2,002                 | 347               | 1,386           | 448                  | 4,183        |
| — monetary assets                               | 64                    | 7                 | 36              | 29                   | 136          |
| <b>Total</b>                                    | <b>3,028</b>          | <b>729</b>        | <b>2,387</b>    | <b>1,852</b>         | <b>7,996</b> |
| % of total loans and advances                   | 0.28%                 | 0.07%             | 0.23%           | 0.18%                | 0.76%        |

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 21 Loans and advances to customers (Continued)

### (5) Changes in allowance for impairment losses:

#### Group

|                         | 2011                         |                       |                             | Total   |
|-------------------------|------------------------------|-----------------------|-----------------------------|---------|
|                         | Corporate loans and advances |                       | Personal loans and advances |         |
|                         | Individual assessment        | Collective assessment | Collective assessment       |         |
| At 1 January            | 3,583                        | 13,194                | 3,071                       | 19,848  |
| Charge for the year     | 1,345                        | 3,385                 | 4,318                       | 9,048   |
| Release during the year | (1,075)                      | —                     | —                           | (1,075) |
| Reclassification        | 89                           | (89)                  | —                           | —       |
| Transfer out            | —                            | —                     | (2)                         | (2)     |
| Write-offs              | (557)                        | —                     | (304)                       | (861)   |
| Recoveries              | 119                          | —                     | 103                         | 222     |
| Unwinding of discount   | (214)                        | —                     | (20)                        | (234)   |
| Exchange gain or loss   | (7)                          | (3)                   | —                           | (10)    |
| At 31 December          | 3,283                        | 16,487                | 7,166                       | 26,936  |

|                         | 2010                         |                       |                             | Total  |
|-------------------------|------------------------------|-----------------------|-----------------------------|--------|
|                         | Corporate loans and advances |                       | Personal loans and advances |        |
|                         | Individual assessment        | Collective assessment | Collective assessment       |        |
| At 1 January            | 4,378                        | 9,024                 | 1,839                       | 15,241 |
| Charge for the year     | 580                          | 4,366                 | 1,291                       | 6,237  |
| Release during the year | (934)                        | —                     | —                           | (934)  |
| Reclassification        | 197                          | (197)                 | —                           | —      |
| Write-offs              | (612)                        | —                     | (161)                       | (773)  |
| Recoveries              | 144                          | —                     | 102                         | 246    |
| Unwinding of discount   | (170)                        | —                     | —                           | (170)  |
| Exchange gain or loss   | —                            | 1                     | —                           | 1      |
| At 31 December          | 3,583                        | 13,194                | 3,071                       | 19,848 |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 21 Loans and advances to customers (Continued)

### (5) Changes in allowance for impairment losses: (Continued)

#### Bank

|                         | 2011                         |                       |                             | Total   |
|-------------------------|------------------------------|-----------------------|-----------------------------|---------|
|                         | Corporate loans and advances |                       | Personal loans and advances |         |
|                         | Individual assessment        | Collective assessment | Collective assessment       |         |
| At 1 January            | 3,583                        | 13,166                | 3,063                       | 19,812  |
| Charge for the year     | 1,345                        | 3,357                 | 4,285                       | 8,987   |
| Release during the year | (1,075)                      | —                     | —                           | (1,075) |
| Reclassification        | 89                           | (89)                  | —                           | —       |
| Transfer out            | —                            | —                     | (2)                         | (2)     |
| Write-offs              | (557)                        | —                     | (304)                       | (861)   |
| Recoveries              | 119                          | —                     | 103                         | 222     |
| Unwinding of discount   | (214)                        | —                     | (20)                        | (234)   |
| Exchange gain or loss   | (7)                          | (3)                   | —                           | (10)    |
| At 31 December          | 3,283                        | 16,431                | 7,125                       | 26,839  |

|                         | 2010                         |                       |                             | Total  |
|-------------------------|------------------------------|-----------------------|-----------------------------|--------|
|                         | Corporate loans and advances |                       | Personal loans and advances |        |
|                         | Individual assessment        | Collective assessment | Collective assessment       |        |
| At 1 January            | 4,378                        | 9,014                 | 1,834                       | 15,226 |
| Charge for the year     | 580                          | 4,348                 | 1,288                       | 6,216  |
| Release during the year | (934)                        | —                     | —                           | (934)  |
| Reclassification        | 197                          | (197)                 | —                           | —      |
| Write-offs              | (612)                        | —                     | (161)                       | (773)  |
| Recoveries              | 144                          | —                     | 102                         | 246    |
| Unwinding of discount   | (170)                        | —                     | —                           | (170)  |
| Exchange gain or loss   | —                            | 1                     | —                           | 1      |
| At 31 December          | 3,583                        | 13,166                | 3,063                       | 19,812 |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 22 Investment securities

### Group

|                                   | Group          |                | Bank           |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | 2011           | 2010           | 2011           | 2010           |
| Available-for-sale securities (1) | 64,857         | 35,192         | 64,827         | 35,192         |
| Held-to-maturity securities (2)   | 117,886        | 128,610        | 117,886        | 128,235        |
| Loans and receivables (3)         | 8,319          | 11,117         | 8,319          | 11,117         |
| <b>Total</b>                      | <b>191,062</b> | <b>174,919</b> | <b>191,032</b> | <b>174,544</b> |
| Analysed as follows:              |                |                |                |                |
| — Listed in Hong Kong             | 788            | 2,512          | 788            | 2,512          |
| — Listed outside Hong Kong        | 181,219        | 159,732        | 181,219        | 159,732        |
| — Unlisted                        | 9,055          | 12,675         | 9,025          | 12,300         |
| <b>Total</b>                      | <b>191,062</b> | <b>174,919</b> | <b>191,032</b> | <b>174,544</b> |

### (1) Available-for-sale securities

|                                       | Group         |               | Bank          |               |
|---------------------------------------|---------------|---------------|---------------|---------------|
|                                       | 2011          | 2010          | 2011          | 2010          |
| Debt securities at fair value         |               |               |               |               |
| Government and quasi-government bonds |               |               |               |               |
| — listed in Hong Kong                 | 722           | 2,374         | 722           | 2,374         |
| — listed outside Hong Kong            | 43,559        | 16,379        | 43,559        | 16,379        |
| — unlisted                            | —             | 391           | —             | 391           |
| Financial institution bonds           |               |               |               |               |
| — listed in Hong Kong                 | —             | 71            | —             | 71            |
| — listed outside Hong Kong            | 1,235         | 239           | 1,235         | 239           |
| — unlisted                            | 135           | 177           | 105           | 177           |
| Corporate bonds                       |               |               |               |               |
| — listed in Hong Kong                 | 66            | —             | 66            | —             |
| — listed outside Hong Kong            | 19,001        | 15,436        | 19,001        | 15,436        |
| <b>Subtotal</b>                       | <b>64,718</b> | <b>35,067</b> | <b>64,688</b> | <b>35,067</b> |
| Equity investment at fair value       |               |               |               |               |
| Corporate securities                  |               |               |               |               |
| — listed outside Hong Kong            | 14            | —             | 14            | —             |
| Financial institution securities      |               |               |               |               |
| — unlisted                            | 125           | 125           | 125           | 125           |
| <b>Total</b>                          | <b>64,857</b> | <b>35,192</b> | <b>64,827</b> | <b>35,192</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 22 Investment securities (Continued)

### (1) Available-for-sale securities (Continued)

Changes in fair value of the Group's and the Bank's impaired available-for-sale financial assets have been charged to profit or loss. The book value of the Group's impaired available-for-sale financial assets amounted to RMB882 million as at 31 December 2011 (2010: RMB889 million) and the provision amounted to RMB864 million (2010: RMB879 million).

The Group and the Bank did not reclassify the investment securities in 2011. As a result of a change in intention, the Group and the Bank reclassified RMB22,132 million available-for-sale debt securities to held-to-maturity investments in 2010.

### (2) Held-to-maturity securities

|                                       | Group          |                | Bank           |                |
|---------------------------------------|----------------|----------------|----------------|----------------|
|                                       | 2011           | 2010           | 2011           | 2010           |
| Government and quasi-government bonds |                |                |                |                |
| — listed in Hong Kong                 | —              | 67             | —              | 67             |
| — listed outside Hong Kong            | 98,508         | 108,564        | 98,508         | 108,564        |
| Financial institution bonds           |                |                |                |                |
| — listed outside Hong Kong            | 328            | 354            | 328            | 354            |
| — unlisted                            | 476            | 865            | 476            | 490            |
| Corporate bonds                       |                |                |                |                |
| — listed outside Hong Kong            | 18,574         | 18,760         | 18,574         | 18,760         |
| <b>Total</b>                          | <b>117,886</b> | <b>128,610</b> | <b>117,886</b> | <b>128,235</b> |
| Fair value of listed securities       | 117,348        | 126,599        | 117,348        | 126,224        |

### (3) Loans and receivables

|                                       | Group and Bank |               |
|---------------------------------------|----------------|---------------|
|                                       | 2011           | 2010          |
| Government and quasi-government bonds | 1,684          | 2,633         |
| Financial institution bonds           | 6,435          | 6,605         |
| Corporate bonds                       | 200            | —             |
| Financial institution trust products  | —              | 1,879         |
| <b>Total</b>                          | <b>8,319</b>   | <b>11,117</b> |

All of the above receivables are unlisted.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 23 Finance lease receivables

|   | Group   |         |
|---|---------|---------|
|   | 2011    | 2010    |
| Finance lease receivables   | 53,500  | 35,035  |
| Less: unearned finance lease income                                     | (7,781) | (5,319) |
| Present value of minimum finance lease receivables                      | 45,719  | 29,716  |
| Less: allowance for impairment losses — collective assessment (Note 28) | (824)   | (428)   |
| Net balance   | 44,895  | 29,288  |

Finance lease receivables, unearned finance income and minimum finance lease receivables analysed by overdue period are listed as follows:

### Group

|                   | 2011                      |                               |                                   | 2010                      |                         |                                   |
|-------------------|---------------------------|-------------------------------|-----------------------------------|---------------------------|-------------------------|-----------------------------------|
|                   | Finance lease receivables | Unearned finance lease income | Minimum finance lease receivables | Finance lease receivables | Unearned finance income | Minimum finance lease receivables |
| Less than 1 year  | 17,706                    | (3,611)                       | 14,095                            | 10,068                    | (1,528)                 | 8,540                             |
| 1 year to 5 years | 33,338                    | (3,443)                       | 29,895                            | 22,265                    | (3,381)                 | 18,884                            |
| More than 5 years | 2,456                     | (727)                         | 1,729                             | 2,702                     | (410)                   | 2,292                             |
|                   | 53,500                    | (7,781)                       | 45,719                            | 35,035                    | (5,319)                 | 29,716                            |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 24 Property and equipment

(1) Original cost and accumulated depreciation of property and equipment is listed as follows:

### Group

|                          | Buildings | Leasehold improvements | Office equipment | Motor vehicles | Operating lease fixed assets | Construction in progress | Total   |
|--------------------------|-----------|------------------------|------------------|----------------|------------------------------|--------------------------|---------|
| 31 December 2011         |           |                        |                  |                |                              |                          |         |
| Original cost            | 7,238     | 2,641                  | 3,756            | 299            | 282                          | 511                      | 14,727  |
| Accumulated depreciation | (1,064)   | (1,493)                | (2,018)          | (177)          | (4)                          | —                        | (4,756) |
| Net value                | 6,174     | 1,148                  | 1,738            | 122            | 278                          | 511                      | 9,971   |
| 31 December 2010         |           |                        |                  |                |                              |                          |         |
| Original cost            | 6,855     | 1,881                  | 3,215            | 252            | 300                          | 355                      | 12,858  |
| Accumulated depreciation | (831)     | (1,191)                | (1,858)          | (161)          | (8)                          | —                        | (4,049) |
| Net value                | 6,024     | 690                    | 1,357            | 91             | 292                          | 355                      | 8,809   |

### Bank

|                          | Buildings | Leasehold improvements | Office equipment | Motor vehicles | Construction in progress | Total   |
|--------------------------|-----------|------------------------|------------------|----------------|--------------------------|---------|
| 31 December 2011         |           |                        |                  |                |                          |         |
| Original cost            | 7,231     | 2,584                  | 3,685            | 283            | 507                      | 14,290  |
| Accumulated depreciation | (1,063)   | (1,474)                | (1,994)          | (172)          | —                        | (4,703) |
| Net value                | 6,168     | 1,110                  | 1,691            | 111            | 507                      | 9,587   |
| 31 December 2010         |           |                        |                  |                |                          |         |
| Original cost            | 6,848     | 1,881                  | 3,172            | 243            | 328                      | 12,472  |
| Accumulated depreciation | (830)     | (1,191)                | (1,854)          | (160)          | —                        | (4,035) |
| Net value                | 6,018     | 690                    | 1,318            | 83             | 328                      | 8,437   |



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 24 Property and equipment (Continued)

### (2) Movements in property and equipment:

| Group                        | At             | Increase       | Decrease     | At             |
|------------------------------|----------------|----------------|--------------|----------------|
|                              | 1 January      |                |              | 31 December    |
| Original cost                |                |                |              |                |
| Buildings                    | 6,855          | 413            | (30)         | 7,238          |
| Leasehold improvements       | 1,881          | 761            | (1)          | 2,641          |
| Office equipment             | 3,215          | 894            | (353)        | 3,756          |
| Motor vehicles               | 252            | 64             | (17)         | 299            |
| Operating lease fixed assets | 300            | 282            | (300)        | 282            |
| Construction in progress     | 355            | 403            | (247)        | 511            |
| <b>Total</b>                 | <b>12,858</b>  | <b>2,817</b>   | <b>(948)</b> | <b>14,727</b>  |
| Accumulated depreciation     |                |                |              |                |
| Buildings                    | (831)          | (242)          | 9            | (1,064)        |
| Leasehold improvements       | (1,191)        | (302)          | —            | (1,493)        |
| Office equipment             | (1,858)        | (422)          | 262          | (2,018)        |
| Motor vehicles               | (161)          | (33)           | 17           | (177)          |
| Operating lease fixed assets | (8)            | (14)           | 18           | (4)            |
| <b>Total</b>                 | <b>(4,049)</b> | <b>(1,013)</b> | <b>306</b>   | <b>(4,756)</b> |
| Net value                    |                |                |              |                |
| Buildings                    | 6,024          | 171            | (21)         | 6,174          |
| Leasehold improvements       | 690            | 459            | (1)          | 1,148          |
| Office equipment             | 1,357          | 472            | (91)         | 1,738          |
| Motor vehicles               | 91             | 31             | —            | 122            |
| Operating lease fixed assets | 292            | 268            | (282)        | 278            |
| Construction in progress     | 355            | 403            | (247)        | 511            |
| <b>Total</b>                 | <b>8,809</b>   | <b>1,804</b>   | <b>(642)</b> | <b>9,971</b>   |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 24 Property and equipment (Continued)

### (2) Movements in property and equipment: (Continued)

#### Bank

|                          | At<br>1 January | Increase     | Decrease     | At<br>31 December |
|--------------------------|-----------------|--------------|--------------|-------------------|
| Original cost            |                 |              |              |                   |
| Buildings                | 6,848           | 413          | (30)         | 7,231             |
| Leasehold improvements   | 1,881           | 704          | (1)          | 2,584             |
| Office equipment         | 3,172           | 864          | (351)        | 3,685             |
| Motor vehicles           | 243             | 57           | (17)         | 283               |
| Construction in progress | 328             | 366          | (187)        | 507               |
| <b>Total</b>             | <b>12,472</b>   | <b>2,404</b> | <b>(586)</b> | <b>14,290</b>     |
| Accumulated depreciation |                 |              |              |                   |
| Buildings                | (830)           | (242)        | 9            | (1,063)           |
| Leasehold improvements   | (1,191)         | (283)        | —            | (1,474)           |
| Office equipment         | (1,854)         | (402)        | 262          | (1,994)           |
| Motor vehicles           | (160)           | (29)         | 17           | (172)             |
| <b>Total</b>             | <b>(4,035)</b>  | <b>(956)</b> | <b>288</b>   | <b>(4,703)</b>    |
| Net value                |                 |              |              |                   |
| Buildings                | 6,018           | 171          | (21)         | 6,168             |
| Leasehold improvements   | 690             | 421          | (1)          | 1,110             |
| Office equipment         | 1,318           | 462          | (89)         | 1,691             |
| Motor vehicles           | 83              | 28           | —            | 111               |
| Construction in progress | 328             | 366          | (187)        | 507               |
| <b>Total</b>             | <b>8,437</b>    | <b>1,448</b> | <b>(298)</b> | <b>9,587</b>      |

As at 31 December 2011 and 31 December 2010, the Group and the Bank did not have any property and equipment which were acquired by means of finance leasing or temporarily idle or held for sale.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 24 Property and equipment (Continued)

The carrying value of buildings and leasehold improvements is analysed by the remaining terms of the leases as follows:

|                        | Group        |              | Bank         |              |
|------------------------|--------------|--------------|--------------|--------------|
|                        | 2011         | 2010         | 2011         | 2010         |
| Held in mainland China |              |              |              |              |
| on long-term lease     |              |              |              |              |
| (more than 50 years)   | 1,544        | 877          | 1,500        | 871          |
| on medium-term lease   |              |              |              |              |
| (10–50 years)          | 5,633        | 5,663        | 5,633        | 5,663        |
| on short-term lease    |              |              |              |              |
| (less than 10 years)   | 145          | 174          | 145          | 174          |
| <b>Total</b>           | <b>7,322</b> | <b>6,714</b> | <b>7,278</b> | <b>6,708</b> |

As at 31 December 2011, the process of obtaining certificates of ownership for the Group's properties and buildings with an aggregate carrying value of RMB285 million (2010: RMB341 million) was still in progress. Management is of the view that the aforesaid matter would not affect the Group's rights to these assets nor have any significant impact on the Group's operations.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 25 Deferred income tax assets and liabilities

- (1) Deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

### Group

|                                 | 2011                                     |  | 2010                                     |  |
|---------------------------------|--|--|--|--|
|                                 | Deferred income tax assets/(liabilities) | Deductible/(taxable) temporary differences | Deferred income tax assets/(liabilities) | Deductible/(taxable) temporary differences |
| Deferred income tax assets      |  |  |  |  |
| Asset impairment allowance      | 5,754                                    | 23,019                                     | 3,784                                    | 15,153                                     |
| Employee benefits payable       | 1,048                                    | 4,190                                      | 477                                      | 1,910                                      |
| Fair value losses of            |  |  |  |  |
| — available-for-sale securities | 116                                      | 469  | 152                                      | 609  |
| — derivatives                   | 197                                      | 787  | 92                                       | 368  |
| — trading financial assets      | 9  | 36   | 6  | 24   |
| Others                          | 92                                       | 382  | 118                                      | 472  |
| <b>Total</b>                    | <b>7,216</b>                             | <b>28,883</b>                              | <b>4,629</b>                             | <b>18,536</b>                              |
| Deferred income tax liabilities |  |  |  |  |
| Fair value gains of             |  |  |  |  |
| — available-for-sale securities | (77)                                     | (310)                                      | (53)                                     | (212)                                      |
| — derivatives                   | (145)                                    | (587)                                      | (119)                                    | (476)                                      |
| — trading financial assets      | (12)                                     | (49)                                       | (2)                                      | (9)  |
| <b>Total</b>                    | <b>(234)</b>                             | <b>(946)</b>                               | <b>(174)</b>                             | <b>(697)</b>                               |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 25 Deferred income tax assets and liabilities (Continued)

(1) Deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows: (Continued)

### Bank

|                                 | 2011                                     |  | 2010                                     |  |
|---------------------------------|--|--|--|--|
|                                 | Deferred income tax assets/(liabilities) | Deductible/(taxable) temporary differences | Deferred income tax assets/(liabilities) | Deductible/(taxable) temporary differences |
| Deferred income tax assets      |  |  |  |  |
| Asset impairment allowance      | 5,646                                    | 22,588                                     | 3,742                                    | 14,985                                     |
| Employee benefits payable       | 1,027                                    | 4,106                                      | 477                                      | 1,910                                      |
| Fair value losses of            |  |  |  |  |
| — available-for-sale securities | 116                                      | 469  | 152                                      | 609  |
| — derivatives                   | 197                                      | 787  | 92                                       | 368  |
| — trading financial assets      | 9  | 36   | 6  | 24   |
| Others                          | 81                                       | 339  | 118                                      | 472  |
| <b>Total</b>                    | <b>7,076</b>                             | <b>28,325</b>                              | <b>4,587</b>                             | <b>18,368</b>                              |
| Deferred income tax liabilities |  |  |  |  |
| Fair value gains of             |  |  |  |  |
| — available-for-sale securities | (77)                                     | (310)                                      | (53)                                     | (212)                                      |
| — derivatives                   | (145)                                    | (587)                                      | (119)                                    | (476)                                      |
| — trading financial assets      | (12)                                     | (49)                                       | (2)                                      | (9)  |
| <b>Total</b>                    | <b>(234)</b>                             | <b>(946)</b>                               | <b>(174)</b>                             | <b>(697)</b>                               |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 25 Deferred income tax assets and liabilities (Continued)

(2) Movements in deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

### Group

|   | Asset<br>impairment<br>allowance | Fair value<br>losses | Others | Gross<br>deferred<br>income tax<br>assets | Fair value<br>gains | Gross<br>deferred<br>income tax<br>liabilities |
|---|----------------------------------|----------------------|--------|---|---------------------|--|
| At 1 January 2011                           | 3,784                            | 250                  | 595    | 4,629                                     | (174)               | (174)  |
| Recognised in profit or loss                | 1,970                            | 108                  | 545    | 2,623                                     | (36)                | (36)   |
| Recognised in other<br>comprehensive income | —                                | (36)                 | —      | (36)                                      | (24)                | (24)   |
| At 31 December 2011                         | 5,754                            | 322                  | 1,140  | 7,216                                     | (234)               | (234)  |
| At 1 January 2010                           | 2,928                            | 222                  | 312    | 3,462                                     | (281)               | (281)  |
| Recognised in profit or loss                | 856                              | (5)                  | 283    | 1,134                                     | 6                   | 6  |
| Recognised in other<br>comprehensive income | —                                | 33                   | —      | 33  | 101                 | 101  |
| At 31 December 2010                         | 3,784                            | 250                  | 595    | 4,629                                     | (174)               | (174)  |

### Bank

|   | Asset<br>impairment<br>allowance | Fair value<br>losses | Others | Gross<br>deferred<br>income tax<br>assets | Fair value<br>gains | Gross<br>deferred<br>income tax<br>liabilities |
|---|----------------------------------|----------------------|--------|---|---------------------|--|
| At 1 January 2011                           | 3,742                            | 250                  | 595    | 4,587                                     | (174)               | (174)  |
| Recognised in profit or loss                | 1,904                            | 108                  | 513    | 2,525                                     | (36)                | (36)   |
| Recognised in other<br>comprehensive income | —                                | (36)                 | —      | (36)                                      | (24)                | (24)   |
| At 31 December 2011                         | 5,646                            | 322                  | 1,108  | 7,076                                     | (234)               | (234)  |
| At 1 January 2010                           | 2,913                            | 222                  | 312    | 3,447                                     | (281)               | (281)  |
| Recognised in profit or loss                | 829                              | (5)                  | 283    | 1,107                                     | 6                   | 6  |
| Recognised in other<br>comprehensive income | —                                | 33                   | —      | 33  | 101                 | 101  |
| At 31 December 2010                         | 3,742                            | 250                  | 595    | 4,587                                     | (174)               | (174)  |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 25 Deferred income tax assets and liabilities (Continued)

- (3) Offsetting of balances within the same tax jurisdiction of deferred income tax assets and liabilities are as follows:

|                                 | Group |       | Bank  |       |
|---------------------------------|-------|-------|-------|-------|
|                                 | 2011  | 2010  | 2011  | 2010  |
| Deferred income tax assets      | —     | —     | —     | —     |
| Deferred income tax liabilities | (234) | (174) | (234) | (174) |

- (4) Deferred income tax assets and liabilities taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

### Group

|                                 | 2011   |   | 2010   |   |
|---------------------------------|--|---|--|---|
|                                 | Net deferred income tax assets/(liabilities) | Deductible/(taxable) temporary differences after offsetting | Net deferred income tax assets/(liabilities) | Deductible/(taxable) temporary differences after offsetting |
| Deferred income tax assets      | 6,982  | 27,937  | 4,455  | 17,839  |
| Deferred income tax liabilities | —  | —   | —  | —   |

### Bank

|                                 | 2011   |   | 2010   |   |
|---------------------------------|--|---|--|---|
|                                 | Net deferred income tax assets/(liabilities) | Deductible/(taxable) temporary differences after offsetting | Net deferred income tax assets/(liabilities) | Deductible/(taxable) temporary differences after offsetting |
| Deferred income tax assets      | 6,842  | 27,379  | 4,413  | 17,671  |
| Deferred income tax liabilities | —  | —   | —  | —   |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 26 Investment in subsidiaries

|                                | 2011         | 2010         |
|--------------------------------|--------------|--------------|
| Minsheng Leasing               | 2,600        | 2,600        |
| Minsheng Royal Fund Management | 120          | 120          |
| Pengzhou Township Bank         | 20           | 20           |
| Cixi Township Bank             | 35           | 35           |
| Songjiang Township Bank        | 70           | 35           |
| Qijiang Township Bank          | 30           | 30           |
| Tongnan Township Bank          | 25           | 25           |
| Meihekou Township Bank         | 26           | 26           |
| Ziyang Township Bank           | 41           | 41           |
| Jiangxia Township Bank         | 41           | 41           |
| Changyuan Township Bank        | 25           | 25           |
| Yidu Township Bank             | 25           | —            |
| Jiading Township Bank          | 102          | —            |
| Zhongxiang Township Bank       | 36           | —            |
| Penglai Township Bank          | 51           | —            |
| Anxi Township Bank             | 51           | —            |
| Funing Township Bank           | 31           | —            |
| Taicang Township Bank          | 51           | —            |
| Ningjin Township Bank          | 20           | —            |
| Zhangpu Township Bank          | 25           | —            |
| <b>Total</b>                   | <b>3,425</b> | <b>2,998</b> |

| Name                           | Place of incorporation and operation | Principal activities | Registered capital | Nature of legal entity | % of ownership held by the Bank | % of voting rights held by the Bank |
|--------------------------------|--------------------------------------|----------------------|--------------------|------------------------|---------------------------------|-------------------------------------|
| Minsheng Leasing               | Tianjin China                        | Leasing              | 5,095              | Limited company        | 51.03%                          | 51.03%                              |
| Minsheng Royal Fund Management | Guangdong China                      | Fund management      | 200                | Limited company        | 60%                             | 60%                                 |
| Pengzhou Township Bank         | Sichuan China                        | Commercial bank      | 55                 | Limited company        | 36.36%*                         | 36.36%*                             |
| Cixi Township Bank             | Ningbo China                         | Commercial bank      | 100                | Limited company        | 35%*                            | 35%*                                |
| Songjiang Township Bank        | Shanghai China                       | Commercial bank      | 150                | Limited company        | 35%*                            | 35%*                                |
| Qijiang Township Bank          | Chongqing China                      | Commercial bank      | 60                 | Limited company        | 50%*                            | 50%*                                |
| Tongnan Township Bank          | Chongqing China                      | Commercial bank      | 50                 | Limited company        | 50%*                            | 50%*                                |
| Meihekou Township Bank         | Jilin China                          | Commercial bank      | 50                 | Limited company        | 51%                             | 51%                                 |
| Ziyang Township Bank           | Sichuan China                        | Commercial bank      | 80                 | Limited company        | 51%                             | 51%                                 |
| Jiangxia Township Bank         | Hubei China                          | Commercial bank      | 80                 | Limited company        | 51%                             | 51%                                 |
| Changyuan Township Bank        | Henan China                          | Commercial bank      | 50                 | Limited company        | 51%                             | 51%                                 |
| Yidu Township Bank             | Hubei China                          | Commercial bank      | 50                 | Limited company        | 51%                             | 51%                                 |
| Jiading Township Bank          | Shanghai China                       | Commercial bank      | 200                | Limited company        | 51%                             | 51%                                 |
| Zhongxiang Township Bank       | Hubei China                          | Commercial bank      | 70                 | Limited company        | 51%                             | 51%                                 |
| Penglai Township Bank          | Shandong China                       | Commercial bank      | 100                | Limited company        | 51%                             | 51%                                 |
| Anxi Township Bank             | Fujian China                         | Commercial bank      | 100                | Limited company        | 51%                             | 51%                                 |
| Funing Township Bank           | Jiangsu China                        | Commercial bank      | 60                 | Limited company        | 51%                             | 51%                                 |
| Taicang Township Bank          | Jiangsu China                        | Commercial bank      | 100                | Limited company        | 51%                             | 51%                                 |
| Ningjin Township Bank          | Hebei China                          | Commercial bank      | 40                 | Limited company        | 51%                             | 51%                                 |
| Zhangpu Township Bank          | Fujian China                         | Commercial bank      | 50                 | Limited company        | 51%                             | 51%                                 |



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 26 Investment in subsidiaries (Continued)

All interests in subsidiaries are directly held by the Bank.

\* Although the Bank holds less than half of the voting rights in five township banks, it has the majority of the seats in their boards of directors, which enables it to govern their operating policies. These companies are treated as the Bank's subsidiaries and have been consolidated in these financial statements.

## 27 Other assets

### Group

|  | 2011          |   |               | 2010          |   |               |
|--|---------------|---|---------------|---------------|---|---------------|
|  | Gross balance | Allowance for impairment losses (Note 28) | Net balance   | Gross balance | Allowance for impairment losses (Note 28) | Net balance   |
| Prepayments for leased assets (1)                | 9,610         | (105)                                     | 9,505         | 8,174         | (98)                                      | 8,076         |
| Interest receivable (2)                          | 7,210         | —   | 7,210         | 5,169         | —   | 5,169         |
| Intangible assets (3)                            | 4,770         | —   | 4,770         | 1,519         | —   | 1,519         |
| Investment properties                            | 2,723         | —   | 2,723         | 1,426         | —   | 1,426         |
| Items in the process of clearance and settlement | 2,339         | —   | 2,339         | 226           | —   | 226           |
| Accrued fee and commission income                | 1,471         | —   | 1,471         | 306           | —   | 306           |
| Prepayment of properties                         | 1,089         | (27)                                      | 1,062         | 308           | (27)                                      | 281           |
| Repossessed assets*                              | 1,072         | (90)                                      | 982           | 1,035         | (94)                                      | 941           |
| Prepayment of decoration                         | 1,001         | —   | 1,001         | 227           | —   | 227           |
| Prepayment of equipment                          | 207           | —   | 207           | 161           | —   | 161           |
| Prepayment of rent and deposits                  | 129           | —   | 129           | 607           | —   | 607           |
| Prepayment of land use rights                    | 121           | —   | 121           | 280           | —   | 280           |
| Long-term deferred expenses                      | 109           | —   | 109           | 471           | —   | 471           |
| Claims and legal fees recoverable                | 69            | (28)                                      | 41            | 82            | (37)                                      | 45            |
| Others   | 783           | (29)                                      | 754           | 366           | (19)                                      | 347           |
| <b>Total</b>                                     | <b>32,703</b> | <b>(279)</b>                              | <b>32,424</b> | <b>20,357</b> | <b>(275)</b>                              | <b>20,082</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 27 Other assets (Continued)

### Bank

|  | 2011          |   |               | 2010          |   |              |
|--|---------------|---|---------------|---------------|---|--------------|
|  | Gross balance | Allowance for impairment losses (Note 28) | Net balance   | Gross balance | Allowance for impairment losses (Note 28) | Net balance  |
| Interest receivable (2)                          | 7,093         | —   | 7,093         | 5,089         | —   | 5,089        |
| Intangible assets (3)                            | 3,464         | —   | 3,464         | 182           | —   | 182          |
| Items in the process of clearance and settlement | 2,339         | —   | 2,339         | 226           | —   | 226          |
| Accrued fee and commission income                | 1,471         | —   | 1,471         | 306           | —   | 306          |
| Prepayment of properties                         | 1,089         | (27)                                      | 1,062         | 308           | (27)                                      | 281          |
| Repossessed assets*                              | 1,072         | (90)                                      | 982           | 1,035         | (94)                                      | 941          |
| Prepayment of decoration                         | 998           | —   | 998           | 227           | —   | 227          |
| Prepayment of equipment                          | 207           | —   | 207           | 161           | —   | 161          |
| Prepayment of land use rights                    | 121           | —   | 121           | 280           | —   | 280          |
| Long-term deferred expenses                      | 105           | —   | 105           | 403           | —   | 403          |
| Prepayment of rent and deposits                  | 101           | —   | 101           | 574           | —   | 574          |
| Claims and legal fees recoverable                | 69            | (28)                                      | 41            | 82            | (37)                                      | 45           |
| Others   | 711           | (29)                                      | 682           | 317           | (19)                                      | 298          |
| <b>Total</b>                                     | <b>18,840</b> | <b>(174)</b>                              | <b>18,666</b> | <b>9,190</b>  | <b>(177)</b>                              | <b>9,013</b> |

\* Repossessed assets include buildings, machinery and equipment. The disposal of repossessed assets made by the Group during the year of 2011 amounted to RMB40 million at cost. Repossessed assets are sold as soon as practicable after balance sheet date.

(1) Prepayments for leased assets are the prepayments made by the Group for acquiring leased assets under finance leases and operating leases.

### (2) Interest receivable

|                                 | Group        |              | Bank         |              |
|---------------------------------|--------------|--------------|--------------|--------------|
|                                 | 2011         | 2010         | 2011         | 2010         |
| Loans and advances to customers | 3,582        | 2,680        | 3,563        | 2,673        |
| Debt securities                 | 2,526        | 1,827        | 2,523        | 1,826        |
| Others                          | 1,102        | 662          | 1,007        | 590          |
| <b>Total</b>                    | <b>7,210</b> | <b>5,169</b> | <b>7,093</b> | <b>5,089</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 27 Other assets (Continued)

### (3) Intangible assets

#### Group

|                                | Land use right<br>RMB | Others<br>RMB | Total<br>RMB |
|--------------------------------|-----------------------|---------------|--------------|
| Cost                           |                       |               |              |
| At 1 January 2011              | 1,345                 | 435           | 1,780        |
| Additions during the year      | 3,086                 | 473           | 3,559        |
| Disposals during the year      | —                     | (1)           | (1)          |
| At 31 December 2011            | 4,431                 | 907           | 5,338        |
| Less: Accumulated amortisation |                       |               |              |
| At 1 January 2011              | (23)                  | (238)         | (261)        |
| Charge for the year            | (109)                 | (199)         | (308)        |
| Written off on disposal        | —                     | 1             | 1            |
| At 31 December 2011            | (132)                 | (436)         | (568)        |
| Carrying amounts               |                       |               |              |
| At 31 December 2011            | 4,299                 | 471           | 4,770        |
| At 1 January 2011              | 1,322                 | 197           | 1,519        |

#### Bank

|                                | Land use right<br>RMB | Others<br>RMB | Total<br>RMB |
|--------------------------------|-----------------------|---------------|--------------|
| Cost                           |                       |               |              |
| At 1 January 2011              | —                     | 413           | 413          |
| Additions during the year      | 3,086                 | 468           | 3,554        |
| At 31 December 2011            | 3,086                 | 881           | 3,967        |
| Less: Accumulated amortisation |                       |               |              |
| At 1 January 2011              | —                     | (231)         | (231)        |
| Charge for the year            | (77)                  | (195)         | (272)        |
| At 31 December 2011            | (77)                  | (426)         | (503)        |
| Carrying amounts               |                       |               |              |
| At 31 December 2011            | 3,009                 | 455           | 3,464        |
| At 1 January 2011              | —                     | 182           | 182          |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 28 Movements in allowances for impairment losses

### Group

|                                 | Note | 2011            |              |              |              | At<br>31 December |
|---------------------------------|------|-----------------|--------------|--------------|--------------|-------------------|
|                                 |      | At<br>1 January | Charge       | Transfer out | Write-offs   |                   |
| Loans and advances to customers | 21   | 19,848          | 7,973        | (24)         | (861)        | 26,936            |
| Available-for-sale securities   |      | 879             | —            | (15)         | —            | 864               |
| Finance lease receivables       | 23   | 428             | 396          | —            | —            | 824               |
| Other assets                    | 27   | 275             | 7            | (3)          | —            | 279               |
| <b>Total</b>                    |      | <b>21,430</b>   | <b>8,376</b> | <b>(42)</b>  | <b>(861)</b> | <b>28,903</b>     |

|                                 | Note | 2010            |                       |             |              | At<br>31 December |
|---------------------------------|------|-----------------|-----------------------|-------------|--------------|-------------------|
|                                 |      | At<br>1 January | Charge/<br>(reversal) | Transfer in | Write-offs   |                   |
| Loans and advances to customers | 21   | 15,241          | 5,303                 | 77          | (773)        | 19,848            |
| Available-for-sale securities   |      | 955             | (64)                  | —           | (12)         | 879               |
| Finance lease receivables       | 23   | 233             | 195                   | —           | —            | 428               |
| Other assets                    | 27   | 350             | 70                    | —           | (145)        | 275               |
| <b>Total</b>                    |      | <b>16,779</b>   | <b>5,504</b>          | <b>77</b>   | <b>(930)</b> | <b>21,430</b>     |

### Bank

|                                 | Note | 2011            |              |              |              | At<br>31 December |
|---------------------------------|------|-----------------|--------------|--------------|--------------|-------------------|
|                                 |      | At<br>1 January | Charge       | Transfer out | Write-offs   |                   |
| Loans and advances to customers | 21   | 19,812          | 7,912        | (24)         | (861)        | 26,839            |
| Available-for-sale securities   |      | 879             | —            | (15)         | —            | 864               |
| Other assets                    | 27   | 177             | 1            | (4)          | —            | 174               |
| <b>Total</b>                    |      | <b>20,868</b>   | <b>7,913</b> | <b>(43)</b>  | <b>(861)</b> | <b>27,877</b>     |

|                                 | Note | 2010            |                       |             |              | At<br>31 December |
|---------------------------------|------|-----------------|-----------------------|-------------|--------------|-------------------|
|                                 |      | At<br>1 January | Charge/<br>(reversal) | Transfer in | Write-offs   |                   |
| Loans and advances to customers | 21   | 15,226          | 5,282                 | 77          | (773)        | 19,812            |
| Available-for-sale securities   |      | 955             | (64)                  | —           | (12)         | 879               |
| Other assets                    | 27   | 328             | (6)                   | —           | (145)        | 177               |
| <b>Total</b>                    |      | <b>16,509</b>   | <b>5,212</b>          | <b>77</b>   | <b>(930)</b> | <b>20,868</b>     |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 29 Deposits from customers

|  | Group            |                  | Bank             |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2011             | 2010             | 2011             | 2010             |
| Demand deposits                                    |                  |                  |                  |                  |
| — Corporate deposits                               | 609,850          | 579,530          | 605,414          | 576,361          |
| — Personal deposits                                | 85,198           | 71,795           | 84,528           | 71,391           |
| Time deposits (including call and notice deposits) |                  |                  |                  |                  |
| — Corporate deposits                               | 743,141          | 604,997          | 739,844          | 603,916          |
| — Personal deposits                                | 203,424          | 159,571          | 201,828          | 159,011          |
| Other deposits                                     | 3,125            | 1,984            | 3,098            | 1,984            |
| <b>Total</b>                                       | <b>1,644,738</b> | <b>1,417,877</b> | <b>1,634,712</b> | <b>1,412,663</b> |

Deposits from customers included:

|   | Group          |                | Bank           |                |
|---|----------------|----------------|----------------|----------------|
|   | 2011           | 2010           | 2011           | 2010           |
| (1) Pledged deposits                                  |                |                |                |                |
| Pledged deposits for bank acceptances                 | 195,870        | 133,116        | 195,419        | 132,792        |
| Pledged deposits for letters of credit and guarantees | 19,240         | 12,462         | 19,238         | 12,462         |
| Other pledged deposits                                | 68,800         | 32,752         | 68,413         | 32,752         |
| <b>Total</b>  | <b>283,910</b> | <b>178,330</b> | <b>283,070</b> | <b>178,006</b> |
| (2) Outward remittance and remittance payables        | 3,125          | 1,984          | 3,098          | 1,984          |

## 30 Deposits and placements from banks and other financial institutions

|                                | Group          |                | Bank           |                |
|--------------------------------|----------------|----------------|----------------|----------------|
|                                | 2011           | 2010           | 2011           | 2010           |
| Mainland China                 |                |                |                |                |
| — Banks                        | 191,267        | 112,025        | 194,027        | 112,876        |
| — Other financial institutions | 88,074         | 89,196         | 88,410         | 89,484         |
| <b>Total</b>                   | <b>279,341</b> | <b>201,221</b> | <b>282,437</b> | <b>202,360</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 31 Financial assets sold under repurchase agreements

|                           | Group         |               | Bank          |               |
|---------------------------|---------------|---------------|---------------|---------------|
|                           | 2011          | 2010          | 2011          | 2010          |
| Finance lease receivables | 6,361         | 8,606         | —             | —             |
| Discounted bills          | 35,565        | 7,773         | 35,523        | 7,753         |
| Investment securities     | 11,868        | 7,494         | 11,868        | 7,494         |
| <b>Total</b>              | <b>53,794</b> | <b>23,873</b> | <b>47,391</b> | <b>15,247</b> |

As at 31 December 2011, the balances under repurchase agreements include bills transactions with the PBOC amounting to RMB1,763 million.

## 32 Borrowings from banks and other financial institutions

|   | Group         |               |
|---|---------------|---------------|
|   | 2011          | 2010          |
| Credit borrowings                               | 39,303        | 23,818        |
| Secured borrowings                              |               |               |
| — by monetary assets                            | 1,231         | 1,393         |
| — by tangible assets other than monetary assets | 291           | —             |
| <b>Total</b>                                    | <b>40,825</b> | <b>25,211</b> |

As at 31 December 2011, the secured borrowings by monetary assets of RMB1,231 million (2010: RMB1,393 million) were secured by the finance lease receivables of RMB1,377 million (2010: RMB1,868 million). The secured borrowings of RMB291 million (2010: nil) were secured by property and equipment of RMB186 million and other assets of RMB184 million. There was no remaining credit limit under such secured borrowings (2010: RMB150 million).

## 33 Debt securities issued

|                          | Group and Bank |               |
|--------------------------|----------------|---------------|
|                          | 2011           | 2010          |
| Financial bonds (1)      | 6,000          | 6,000         |
| Subordinated bonds (2)   | 15,753         | 5,773         |
| Hybrid capital bonds (3) | 9,277          | 9,275         |
| <b>Total</b>             | <b>31,030</b>  | <b>21,048</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 33 Debt securities issued (Continued)

### (1) Financial bonds

|  | Group and Bank |       |
|--|----------------|-------|
|  | 2011           | 2010  |
| RMB6.0 billion — 5-year floating rate financial bonds 2007 | 6,000          | 6,000 |

RMB6.0 billion worth of floating-rate financial bonds were issued in 2007, with a term of five years. The floating interest rate is based on the one-year time deposit rate published by the PBOC plus a spread of 0.76% per annum, payable annually.

There were no overdue principal and interest or other defaults with respect to these bonds. None of these bonds are secured.

### (2) Subordinated bonds

|   | Group and Bank |       |
|---|----------------|-------|
|   | 2011           | 2010  |
| RMB5.8 billion — 10-year subordinated fixed rate bonds 2010 (i)   | 5,776          | 5,773 |
| RMB6.0 billion — 10-year subordinated fixed rate bonds 2011 (ii)  | 5,986          | —     |
| RMB4.0 billion — 15-year subordinated fixed rate bonds 2011 (iii) | 3,991          | —     |
| Total   | 15,753         | 5,773 |

- (i) RMB5.8 billion worth of fixed-rate subordinated bonds were issued in 2010, with a term of 10 years and a fixed rate of 4.29% per annum. According to the terms, the Bank has the option to redeem all or part of the subordinated bonds at face value in the period from the last day of the fifth year to the maturity date.
- (ii) RMB6.0 billion worth of fixed-rate subordinated bonds were issued in 2011, with a term of 10 years and a fixed coupon rate of 5.50% per annum. According to the terms, the Bank has the option to redeem all or part of the subordinated bonds at face value in the period from the last day of the fifth year to the maturity date.
- (iii) RMB4.0 billion worth of fixed-rate subordinated bonds were issued in 2011, with a term of 15 years and a fixed coupon rate of 5.70% per annum. According to the terms, the Bank has the option to redeem all or part of the subordinated bonds at face value in the period from the last day of the tenth year to the maturity date.

According to the issuance terms, these bonds are subordinated to all other claims on the Bank's assets, except those of the hybrid capital bond holders and shareholders. According to relevant regulations, these bonds qualify for inclusion as supplementary capital in the calculation of the Bank's capital adequacy ratio.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 33 Debt securities issued (Continued)

### (2) Subordinated bonds (Continued)

There were no overdue principal and interest or other defaults with respect to these bonds. None of these bonds are secured.

### (3) Hybrid capital bonds

|   | Group and Bank |              |
|---|----------------|--------------|
|   | 2011           | 2010         |
| RMB3.3 billion — 15-year hybrid capital fixed rate bonds 2006 (i)       | 3,294          | 3,292        |
| RMB1.0 billion — 15-year hybrid capital floating rate bonds 2006 (ii)   | 998            | 998          |
| RMB3.325 billion — 15-year hybrid capital fixed rate bonds 2009 (iii)   | 3,315          | 3,315        |
| RMB1.675 billion — 15-year hybrid capital floating rate bonds 2009 (iv) | 1,670          | 1,670        |
|   | <b>9,277</b>   | <b>9,275</b> |

- (i) RMB3.3 billion worth of fixed-rate hybrid capital bonds were issued in 2006, with a term of 15 years and fixed coupon rates of 5.05% per annum for the first 10 years and 8.05% per annum for the last five years.
- (ii) RMB1.0 billion worth of floating-rate hybrid capital bonds were issued in 2006, with a term of 15 years. The floating rate is based on the one-year time deposit rate published by the PBOC plus a spread of 2.00% per annum for the first 10 years. From the 11th year onward, the spread will increase to 3.00% per annum.
- (iii) RMB3.325 billion worth of fixed-rate hybrid capital bonds were issued in 2009, with a term of 15 years and fixed coupon rates of 5.70% per annum for the first 10 years and 8.70% per annum for the last five years.
- (iv) RMB1.675 billion worth of floating-rate hybrid capital bonds were issued in 2009, with a term of 15 years. The floating rate is based on the one-year time deposit rate published by the PBOC plus a spread of 3.00% per annum for the first 10 years. From the 11th year onward, the spread will increase to 6.00% per annum.

According to the issuance terms, the Bank has the option to redeem all or part of the above bonds at face value from the last day of the tenth year to the maturity date.

The holders of the hybrid capital bonds are subordinated to holders of subordinated bonds, but have priority over shareholders. All holders of hybrid capital bonds enjoy the same priority of claim. According to the issuance terms, the Bank has the option to defer interest payment if the core capital adequacy ratio calculated based on its latest audited financial reports is below 4%. If the sum of surplus reserve plus retained earnings shown on the latest audited statement of financial position is negative and no cash dividends have been paid to ordinary equity shareholders in the last 12 months, the Bank must defer interest payment.



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 33 Debt securities issued (Continued)

### (3) Hybrid capital bonds (Continued)

According to relevant regulations, these bonds qualify for inclusion as supplementary capital in the calculation of the Bank's capital adequacy ratio.

There were no overdue principal and interest or other defaults with respect to these bonds. None of these bonds are secured.

## 34 Other liabilities

|  | Group         |               | Bank          |               |
|--|---------------|---------------|---------------|---------------|
|  | 2011          | 2010          | 2011          | 2010          |
| Interest payable (1)                             | 14,894        | 9,222         | 14,455        | 9,015         |
| Employee benefits payable (2)                    | 5,335         | 3,199         | 5,224         | 3,142         |
| Guarantee deposits for finance lease             | 4,478         | 2,172         | —             | —             |
| Other tax payable (3)                            | 2,644         | 1,302         | 2,601         | 1,281         |
| Deferred fee and commission income               | 2,422         | 1,626         | 2,417         | 1,246         |
| Suspense balance of wealth management products   | 1,003         | 481           | 1,003         | 481           |
| Receipt in advance                               | 934           | 809           | 184           | 173           |
| Accrued expenses                                 | 601           | 191           | 601           | 191           |
| Payable of equipment purchase                    | 578           | 446           | 448           | 287           |
| Items in the process of clearance and settlement | 531           | 869           | 531           | 869           |
| Withholding tax payable                          | 249           | 876           | 248           | 876           |
| Dividend payable                                 | 54            | 54            | 54            | 54            |
| Others   | 1,725         | 679           | 1,174         | 594           |
| <b>Total</b>                                     | <b>35,448</b> | <b>21,926</b> | <b>28,940</b> | <b>18,209</b> |

### (1) Interest payable

|  | Group         |              | Bank          |              |
|--|---------------|--------------|---------------|--------------|
|  | 2011          | 2010         | 2011          | 2010         |
| Deposits from customers                                | 12,002        | 7,928        | 11,939        | 7,916        |
| Deposits from banks and other financial institutions   | 1,537         | 589          | 1,537         | 589          |
| Debt securities issued                                 | 928           | 448          | 928           | 448          |
| Borrowings from banks and other financial institutions | 367           | 195          | —             | —            |
| Others   | 60            | 62           | 51            | 62           |
| <b>Total</b>   | <b>14,894</b> | <b>9,222</b> | <b>14,455</b> | <b>9,015</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 34 Other liabilities

### (2) Employee benefits payable

#### Group

|  | At<br>1 January | Increase      | Decrease      | At<br>31 December |
|--|-----------------|---------------|---------------|-------------------|
| Salaries, bonuses, allowances                      | 2,591           | 11,644        | 9,394         | 4,841             |
| Staff welfare fees                                 | —               | 1,348         | 1,348         | —                 |
| Social insurance                                   | 531             | 1,741         | 1,880         | 392               |
| Housing fund                                       | 47              | 534           | 518           | 63                |
| Labour union fee, staff and workers' education fee | 30              | 336           | 327           | 39                |
| <b>Total</b>                                       | <b>3,199</b>    | <b>15,603</b> | <b>13,467</b> | <b>5,335</b>      |

#### Bank

|  | At<br>1 January | Increase      | Decrease      | At<br>31 December |
|--|-----------------|---------------|---------------|-------------------|
| Salaries, bonuses, allowances                      | 2,535           | 11,394        | 9,198         | 4,731             |
| Staff welfare fees                                 | —               | 1,326         | 1,326         | —                 |
| Social insurance                                   | 530             | 1,709         | 1,848         | 391               |
| Housing fund                                       | 47              | 517           | 502           | 62                |
| Labour union fee, staff and workers' education fee | 30              | 335           | 325           | 40                |
| <b>Total</b>                                       | <b>3,142</b>    | <b>15,281</b> | <b>13,199</b> | <b>5,224</b>      |

### (3) Other tax payable

|                      | Group        |              | Bank         |              |
|----------------------|--------------|--------------|--------------|--------------|
|                      | 2011         | 2010         | 2011         | 2010         |
| Business tax payable | 1,927        | 918          | 1,896        | 908          |
| Others               | 717          | 384          | 705          | 373          |
| <b>Total</b>         | <b>2,644</b> | <b>1,302</b> | <b>2,601</b> | <b>1,281</b> |

## 35 Share capital and capital reserve

|  | 2011          | 2010          |
|--|---------------|---------------|
| Common shares listed in Mainland China (A share) | 22,588        | 22,588        |
| Common shares listed in Hong Kong (H share)      | 4,127         | 4,127         |
| <b>Total</b>                                     | <b>26,715</b> | <b>26,715</b> |

All A-shares and H-shares are with no selling restrictions and rank pari passu with the same rights and benefits.

The Group's capital reserve is RMB38,360 million as at 31 December 2011(2010: RMB38,075 million), which mainly comprises capital premium.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 36 Surplus reserve, general reserve and retained earnings

### (1) Surplus reserve

Under PRC laws, the Bank is required to appropriate 10% of its net profit, as determined under CAS, to a statutory surplus reserve until the balance reaches 50% of its registered capital. Subject to the approval of the equity shareholders, the statutory surplus reserve can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserve amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the share capital.

The Bank appropriated 10% of its net profit under CAS to the statutory surplus reserve, which amounts to RMB2,744 million for the year 2011 (2010: RMB1,719 million). The Bank did not appropriate discretionary surplus reserve in 2011 and 2010.

### (2) General reserve

Pursuant to the Measures for Managing the Appropriation of Provisions for Doubtful Debts of Financial Enterprises (Cai Jin [2005] No. 49) issued by the MOF, the Bank is required to provide for impairment losses of its assets and set aside a general reserve through the appropriation of net profits to cover potential losses against its assets. The general reserve is part of the equity shareholders' interests and should not be less than 1% of the year-end balance of risk-bearing assets.

In accordance with the board resolution on 2 March 2012, the Bank appropriated RMB2,900 million of profits recorded in 2011 to the general reserve (2010: RMB2,900 million).

In addition, 18 township banking subsidiaries of the Group also appropriated 1% of the year-end balance of risk-bearing assets to the general reserve following the same requirement as above. Pursuant to the Financial Rules for Financial Enterprises — Implementation Guidelines (Cai Jin [2007] No. 23) issued by the MOF, Minsheng Leasing appropriated 1% of its net profits to the general reserve. Minsheng Royal Fund Management appropriated 10% of its monthly fee income from managing securities investment funds in accordance with the Decision to Revise the Circular on Issues related to the Appropriation of General Reserve by Fund Management Companies (Zheng Jian Ji Jin Zi [2006] No. 154) issued by the China Securities Regulatory Commission ("CSRC"). In total, the subsidiaries appropriated RMB47 million (2010: RMB42 million) to the general reserve for the year ended 31 December 2011, including RMB21 million (2010: RMB18 million) attributable to the Bank.

### (3) Retained earnings

As at 31 December 2011, the retained earnings included the statutory surplus reserve of 85 million contributed by the subsidiaries and attributable to the Bank (2010: RMB59 million), of which RMB47 million (2010: RMB40 million) was the appropriation made by the subsidiaries for the year ended 31 December 2011. The statutory surplus reserve in the retained earnings which is contributed by subsidiaries cannot be further distributed.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 37 Non-controlling interests

The non-controlling interests of the subsidiaries are as follows:

|   | 2011         | 2010         |
|---|--------------|--------------|
| Tianjin Port Free Trade Zone Investment Corp., Ltd.   | 857          | 743          |
| Beijing Dayixingye Real Estate Development Corp., Ltd.  | 642          | —            |
| Shanghai Guozhijie Investment Development Corp., Ltd.   | 571          | —            |
| Jiangsu Sunshine Group Corp., Ltd.  | 428          | —            |
| Shanghai Guozheng Investment Management Corp., Ltd.   | 428          | —            |
| Guangzhou Ziquan Real Estate Development Corp., Ltd.  | 285          | —            |
| China Century Investment Corp., Ltd.  | 285          | —            |
| Shengjinda Investment Corp., Ltd.   | 64           | —            |
| Royal Bank of Canada  | 12           | 21           |
| Shanghai Sheshan National Holiday Resort Development Corp., Ltd.<br>(2010: Shanghai Sheshan National Holiday<br>Resort Development Corporation) | 30           | 12           |
| Shanghai Zhongliang Industry Corp., Ltd.<br>(2010: Shanghai Songjiang Food & Oil Corporation)   | 30           | 12           |
| Shanghai Songjiang Merchant Development Corp., Ltd.<br>(2010: Shanghai Songjiang Merchant Corporation)  | 30           | 12           |
| Shanghai Songjiang Water Company  | 30           | 12           |
| Shanghai Songjiang Economic Development and Construction Corporation  | 30           | 12           |
| Shanghai Jiadingguangwo Asset Operation Corp., Ltd.   | 21           | —            |
| Shanghai Zhongke High Technology Industrial Park<br>Development Corp., Ltd.   | 21           | —            |
| Cixi Supply & Marketing Cooperatives Association  | 15           | 11           |
| Cixi Financial Investment Management Corporation  | 13           | 10           |
| Others  | 721          | 304          |
| <b>Total</b>  | <b>4,513</b> | <b>1,149</b> |

## 38 Dividends

The 22nd Session of the 5th Board of Directors' Meeting held on 22 March 2012 approved the 2011 dividend distribution plan to declare to the registered A share and H share equity shareholders cash dividends of RMB3.0 (before tax) for every 10 shares. The above dividend distribution plan is pending the approval of the 2011 Annual General Meeting and the registered date for shareholders will be designated in the announcement.

As stated in Note 44, if the new issuance of foreign shares listed in Hong Kong complete before registered date, the actual cash dividends will be higher than the amount calculated based on outstanding shares as at 31 December 2011.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 38 Dividends (Continued)

The 2010 Annual General Meeting held on 26 May 2011 approved the 2010 dividend distribution plan of distributing cash dividends to the registered equity shareholders as at the market close on 8 June 2011. The cash dividends declared was RMB1.00 (before tax) for every 10 shares of the Bank's total equity stock as at the market close on 31 December 2010, totalling RMB2,672 million.

## 39 Investment revaluation reserve

|  | Group and Bank |       |
|--|----------------|-------|
|  | 2011           | 2010  |
| At 1 January   | (288)          | 106   |
| Changes in fair value of available-for-sale securities | 44             | (241) |
| Less: deferred income tax                              | (11)           | 61    |
| Transfer to profit or loss upon disposal               | 50             | (223) |
| Less: deferred income tax                              | (13)           | 57    |
| Transfer to profit or loss due to reclassification     | 144            | —     |
| Less: deferred income tax                              | (36)           | —     |
| Impairment losses on available-for-sale securities     | —              | (64)  |
| Less: deferred income tax                              | —              | 16    |
| At 31 December   | (110)          | (288) |

## 40 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows consist of the following:

|  | Group and Bank |         |
|--|----------------|---------|
|  | 2011           | 2010    |
| Cash (Note 15)   | 5,175          | 4,597   |
| Surplus deposit reserve with central bank (Note 15)    | 49,174         | 64,004  |
| Original maturity within 3 months:                     |                |         |
| — Balances with banks and other financial institutions | 212,054        | 103,616 |
| — PBOC bills   | 1,859          | —       |
| Total  | 268,262        | 172,217 |

## 41 Contingent liabilities and commitments

### (1) Credit commitments

Credit commitments take the form of approved loans with signed contracts, credit card limits, financial guarantees and letters of credit. The Group regularly assesses the contingent losses of its credit commitments and makes allowances where necessary.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 41 Contingent liabilities and commitments (Continued)

### (1) Credit commitments (Continued)

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties fail to fully perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

As the credit facilities may expire without being drawn upon, the contract amounts set out in the following table do not represent expected future cash outflows.

|  | Group          |                | Bank           |                |
|--|----------------|----------------|----------------|----------------|
|  | 2011           | 2010           | 2011           | 2010           |
| Bank acceptances                                   | 462,638        | 308,584        | 462,169        | 308,012        |
| Guarantees   | 67,321         | 50,115         | 67,320         | 50,115         |
| Letters of credit                                  | 66,368         | 30,062         | 66,368         | 30,062         |
| Trade refinancing                                  | 56,334         | 24,267         | 56,334         | 24,267         |
| Unused credit card commitments                     | 12,578         | 18,618         | 12,578         | 18,618         |
| Irrevocable loan commitments                       |                |                |                |                |
| — original maturity date within 1 year             | 435            | 1,160          | 435            | 1,160          |
| — original maturity date over 1 year (inclusive)   | 1,611          | 4,469          | 1,611          | 4,469          |
| Finance lease commitments                          | 2,808          | 1,898          | —              | —              |
| <b>Total</b>                                       | <b>670,093</b> | <b>439,173</b> | <b>666,815</b> | <b>436,703</b> |
| Credit risk weighted amounts of credit commitments | 283,497        | 182,868        | 283,028        | 182,619        |

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

### (2) Capital commitments

|                                   | Group         |              | Bank       |              |
|-----------------------------------|---------------|--------------|------------|--------------|
|                                   | 2011          | 2010         | 2011       | 2010         |
| Contracted but not paid for       | 10,047        | 6,700        | 101        | 1,810        |
| Authorised but not contracted for | 21            | 1,596        | 21         | 1,596        |
| <b>Total</b>                      | <b>10,068</b> | <b>8,296</b> | <b>122</b> | <b>3,406</b> |

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 41 Contingent liabilities and commitments (Continued)

### (3) Operating lease commitments

The future minimum lease payments under non-cancellable operating lease of the Group and the Bank are summarised as follows:

|                                 | Group        |              | Bank         |              |
|---------------------------------|--------------|--------------|--------------|--------------|
|                                 | 2011         | 2010         | 2011         | 2010         |
| Within 1 year                   | 1,331        | 1,134        | 1,303        | 1,120        |
| After 1 year but within 5 years | 3,572        | 2,094        | 3,496        | 2,054        |
| After 5 years                   | 1,646        | 921          | 1,618        | 884          |
| <b>Total</b>                    | <b>6,549</b> | <b>4,149</b> | <b>6,417</b> | <b>4,058</b> |

### (4) Fulfilment of commitments of prior period

The Group had fulfilled the capital commitments and operating lease commitments which were made as at 31 December 2010.

### (5) Assets pledged

|  | Group         |               | Bank          |               |
|--|---------------|---------------|---------------|---------------|
|  | 2011          | 2010          | 2011          | 2010          |
| Balances with banks and other financial institutions | 30            | —             | 30            | —             |
| Trading financial assets                             | 5,609         | 1,991         | 5,609         | 1,991         |
| Discounted bills                                     | 35,384        | 7,773         | 35,343        | 7,753         |
| Investment securities                                | 6,381         | 8,682         | 6,381         | 8,682         |
| Finance lease receivables                            | 8,223         | 10,468        | —             | —             |
| Property and equipment                               | 186           | —             | —             | —             |
| Other assets   | 184           | —             | —             | —             |
| <b>Total</b>   | <b>55,997</b> | <b>28,914</b> | <b>47,363</b> | <b>18,426</b> |

Some of the Group's assets are pledged as collateral under repurchase agreements, derivative contracts, negotiated deposits taken, loan agreements with other financial institutions and for obtaining credit quotas.

The Group maintains statutory deposit reserves with the PBOC as required (Note 15). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. The fair value of such pledged assets was RMB129,508 million as at 31 December 2011 (2010: RMB104,801 million). As at 31 December 2011, the Group sold or repledged RMB34,895 million of pledged assets which it has an obligation to repurchase on due dates (2010: RMB7,736 million).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 41 Contingent liabilities and commitments (Continued)

### (6) Underwriting of securities

|                                      | Group and Bank |        |
|--------------------------------------|----------------|--------|
|                                      | 2011           | 2010   |
| Medium- and short-term finance bills | 21,752         | 13,050 |

### (7) Redemption commitments

As an underwriting agent of certificated PRC government bonds, the Bank has the obligation to buy back those bonds sold by it should the holders decide to redeem the bonds early. 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. The amount of redemption obligation, which represents the nominal value of government bonds underwritten and sold by the Bank, but not yet matured as at 31 December 2011 was RMB3,548 million (2010: RMB4,806 million). The bonds' original maturities vary from one to five years.

### (8) Outstanding litigation

A number of outstanding litigation matters against the Group had arisen in the normal course of its business as at 31 December 2011. After considering professional advice, the Group's management believes such litigation will not have a significant impact on the Group.

## 42 Fiduciary activities

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

The Group's balances of investment fund custodian operations were RMB33,051 million as at 31 December 2011 (2010: RMB36,772 million). The Group's balances of corporate annuity funds custodian operations were RMB4,652 million as at 31 December 2011 (2010: RMB3,189 million). The Group's balances of credit assets entrusted management were RMB12,707 million as at 31 December 2011 (2010: RMB78,256 million). And the Group's balances of entrusted loans were RMB61,463 million as at 31 December 2011 (2010: RMB38,814 million).



# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 43 Related party transactions

### (1) Related parties

Related parties of the Group refer to entities controlled, or jointly controlled by or under significant influence of the Group; entities that control, jointly control or have significant influence over the Group; or entities with which the Group is under control, or joint control of another party. Related parties can be individuals or enterprises. Related parties that have significant influence on the Group include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; major shareholders with the power to influence the Bank's operating or financial policies, and entities controlled or jointly controlled by these major shareholders.

The detailed information of the Bank's subsidiaries is set out in Note 26.

### (2) Related party transactions

#### (i) Pricing policy

Transactions between the Group and related parties are conducted in the normal course of its business and under normal commercial terms. The pricing policies are no more favourable than those offered to independent third parties.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 43 Related party transactions (Continued)

### (2) Related party transactions (Continued)

#### (ii) Loans to related parties

Balances outstanding as at the end of the reporting period:

|   | Types of collateral | 2011         | 2010         |
|---|---------------------|--------------|--------------|
| Legend Holdings Ltd.                                      | Guaranteed          | 1,970        | 1,970        |
| Tianjin Tax-free Zone Investment Co., Ltd.                | Unsecured           | 750          | —            |
| Orient Group Corporation Ltd.                             | Pledged             | 400          | 300          |
| Wuxi Jiante Pharmaceutical Co., Ltd.                      | Guaranteed          | 400          | —            |
| East Hope (San Men Xia) Aluminum Co., Ltd.                | Guaranteed          | 220          | 215          |
| Good First Group Ltd.                                     | Collateralised      | 100          | —            |
|   | Pledged             | 54           | 250          |
| Sichuan Minjiang Snow Salinization Co., Ltd.              | Guaranteed          | 60           | —            |
|   | Collateralised      | 48           | —            |
| CSPC Group Ltd.   | Pledged             | 105          | —            |
| Shandong Xinfu Orient Aluminum Co., Ltd.                  | Guaranteed          | 100          | 100          |
| Wuxi Jiante Bioengineering Co., Ltd.                      | Pledged             | 100          | —            |
| Sichuan Hope West Construction Co., Ltd.                  | Guaranteed          | 90           | 50           |
| Chengdu Beautiful Home<br>Commercial Management Co., Ltd. | Guaranteed          | 20           | 20           |
| Jinan Ward Auto Parts Co., Ltd.                           | Guaranteed          | 20           | 20           |
| Sichuan Tequ Investment Co., Ltd.                         | Guaranteed          | 15           | 65           |
| Chengdu Mayflower Computer School                         | Guaranteed          | 10           | 10           |
| Jinan Qilipu Market Co., Ltd.                             | Guaranteed          | 10           | 10           |
| East Hope Baotou Rare Earth and<br>Aluminum Co., Ltd.     | Pledged             | —            | 300          |
| Maoxian Minjiangmei Electric Salt Co., Ltd.               | Collateralised      | —            | 57           |
| Maoxian Xinyan Chemical Co., Ltd.                         | Guaranteed          | —            | 20           |
| CSPC Ouyi Pharmaceutical Co., Ltd.                        | Pledged             | —            | 10           |
| Individuals   | Collateralised      | 14           | 3            |
| <b>Total</b>  |                     | <b>4,486</b> | <b>3,400</b> |
| Ratio to similar transactions (%)                         |                     | <b>0.38</b>  | <b>0.33</b>  |

Amount of transactions:

|                                   | 2011 | 2010 |
|-----------------------------------|------|------|
| Interest income from loans        | 276  | 133  |
| Ratio to similar transactions (%) | 0.24 | 0.19 |

As at 31 December 2011, none of the above loans are found to be impaired (2010: nil).

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 43 Related party transactions (Continued)

### (2) Related party transactions (Continued)

#### (iii) Other transactions with related parties

Balances outstanding as at the end of the reporting period:

|   | 2011    |                                   | 2010    |                                   |
|---|---------|-----------------------------------|---------|-----------------------------------|
|   | Balance | Ratio to similar transactions (%) | Balance | Ratio to similar transactions (%) |
| Balances with banks and other financial institutions                | 1,763   | 0.76                              | —       | —                                 |
| Trading financial assets  | 200     | 0.98                              | —       | —                                 |
| Placements with banks and other financial institutions              | 100     | 0.26                              | —       | —                                 |
| Financial assets held under resale agreements                       | —       | —                                 | 80      | 0.07                              |
| Investment securities:  |         |                                   |         |                                   |
| — available-for-sale securities                                     | 694     | 1.07                              | —       | —                                 |
| — held-to-maturity securities                                       | 179     | 0.15                              | 79      | 0.06                              |
| — loans and receivables   | 100     | 1.20                              | 100     | 0.90                              |
| Other assets  | 29      | 0.09                              | —       | —                                 |
| Deposits from customers   | 46,220  | 2.81                              | 35,347  | 2.49                              |
| Deposits and placements from banks and other financial institutions | 5,235   | 1.87                              | 2,878   | 1.43                              |
| Other liabilities   | 678     | 1.91                              | 122     | 0.56                              |

The Group's interest income arising from the above related-party transactions for the current year is RMB141 million, accounting for 0.12% of that of similar transactions, and the interest expense is RMB571 million, accounting for 1.09% of that of similar transactions. Other related-party transactions have no material impact on the Group's income statement.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 43 Related party transactions (Continued)

### (2) Related party transactions (Continued)

#### (iii) Other transactions with related parties (Continued)

|  | 2011    |                                   | 2010    |                                   |
|--|---------|-----------------------------------|---------|-----------------------------------|
|  | Balance | Ratio to similar transactions (%) | Balance | Ratio to similar transactions (%) |
| Balances of items off the statement of financial position outstanding as at the end of the reporting period: |         |                                   |         |                                   |
| Bank acceptances   | 877     | 0.19                              | 363     | 0.12                              |
| Letters of credit  | —       | —                                 | 3       | 0.01                              |
| Guarantees   | 95      | 0.14                              | —       | —                                 |
| Operating lease commitments  | 3       | 0.05                              | —       | —                                 |
| Balances of other items outstanding as at the end of the reporting period:                                   |         |                                   |         |                                   |
| Loans collateralised by related parties  | 1,453   | 0.12                              | 952     | 0.09                              |
| Discounted bills under resale agreements   | —       | —                                 | 160     | 0.14                              |
| Discounted bills issued by related parties   | 10      | 0.07                              | 1       | 0.01                              |

None of the above related parties transactions have a material effect on the Group's profit or loss for the years ended 31 December 2011 and 31 December 2010, and the Group's financial position as at 31 December 2011 and 31 December 2010.

#### (iv) Transactions with key management personnel

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

The Group enters into transactions with key management personnel under normal commercial terms. These include loans and deposits, which are carried out at rates similar to those offered to third parties. Outstanding loans to the key management amounted to RMB2 million as at 31 December 2011 (2010: RMB3 million), which have been included in the above loans granted to related parties.

Accrued salaries and other short-term benefits for the key management personnel before tax amounted to RMB110 million for the year ended 31 December 2011 (2010: RMB122 million). Of which, pre-tax compensations for the executive directors, chairman of the supervisory board and executive officers included RMB51 million, to be paid in later years, accrued at no less than 50% of the performance-based compensations (2010: RMB49 million and no less than 50% respectively) in accordance with relevant state regulations. The exact amounts of these deferred payments shall be determined at the end of their respective tenure with the Bank based on their performance and shall be paid out over a period of three years. If losses are incurred in their tenure and attributable to them, the Bank withholds the right to stop payment and recover the paid amount. No post-employment benefits, termination benefits or other long-term benefits were provided to the key management personnel for the years ended 31 December 2011 and 31 December 2010.

# Notes to the Consolidated Financial Statements (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

## 43 Related party transactions (Continued)

### (2) Related party transactions (Continued)

#### (iv) Transactions with key management personnel (Continued)

The emoluments before tax of executive directors, chief supervisor and senior management haven't been confirmed, the Group will make further disclosure upon confirmation.

#### (v) Transactions between the Bank and its subsidiaries

Balances outstanding as at the end of the reporting period:

|   | 2011  | 2010  |
|---|-------|-------|
| Balances with banks and other financial institutions                | 90    | 385   |
| Financial assets held under resale agreements                       | —     | 6,233 |
| Other assets  | 5     | —     |
| Deposits and placements from banks and other financial institutions | 3,296 | 784   |
| Other liabilities   | 42    | 46    |

Amount of transactions:

|                           | 2011 | 2010 |
|---------------------------|------|------|
| Interest income           | 71   | 44   |
| Interest expense          | 139  | 16   |
| Fee and commission income | 21   | 50   |
| Operating expenses        | 104  | 37   |
| Other operating expenses  | 1    | —    |

The balances with the subsidiary have been offset in the condensed consolidated financial statements.

## 44 Subsequent events

Pursuant to Approval of new issuance of foreign listed shares for China Minsheng Banking Corp., Ltd (Zheng Jian Xu Ke [2012] No. 211), issued by CSRC on 20 February 2012. The Bank is granted approval to issue no more than 1,650,852,240 new foreign shares, which are all ordinary shares with par value of RMB1 and to list on Main Board of Hong Kong Exchange. As of the approval date of the financial statements, the issuance of new foreign shares is still in progress.

In addition, details of dividend distribution of 2011 are set out in Note 38.

## 45 Comparative figures

For financial statements disclosure purpose, the Group made reclassification adjustments to some comparative figures.

# Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

## 1 Liquidity ratios

|   | 2011 | 2010 |
|---|------|------|
| RMB current assets to RMB current liabilities                           | 40%  | 33%  |
| Foreign currency current assets to foreign currency current liabilities | 117% | 93%  |

Liquidity ratios are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with CAS released by the MOF.

## 2 Currency concentrations

|                            | 2011     |         |         | Total    |
|----------------------------|----------|---------|---------|----------|
|                            | USD      | HKD     | Others  |          |
| Spot assets                | 34,943   | 1,672   | 4,480   | 41,095   |
| Spot liabilities           | (30,870) | (4,142) | (5,156) | (40,168) |
| Forward purchases          | 33,113   | 2,605   | 3,416   | 39,134   |
| Forward sales              | (36,926) | (150)   | (2,620) | (39,696) |
| Net long/(short) position* | 260      | (15)    | 120     | 365      |

|                            | 2010     |         |         | Total    |
|----------------------------|----------|---------|---------|----------|
|                            | USD      | HKD     | Others  |          |
| Spot assets                | 23,512   | 474     | 2,691   | 26,677   |
| Spot liabilities           | (23,607) | (1,324) | (2,772) | (27,703) |
| Forward purchases          | 9,543    | 682     | 1,915   | 12,140   |
| Forward sales              | (9,380)  | (681)   | (1,969) | (12,030) |
| Net long/(short) position* | 68       | (849)   | (135)   | (916)    |

\* The net option position is calculated using the delta equivalent approach as required by the Hong Kong Monetary Authority.

The Group has no structural position in the reported periods.

# Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Loans and advances to customers

### (1) Impaired loans by geographical area

#### Group

|                                 | Northern<br>China | Eastern<br>China | 2011<br>Southern<br>China | Others | Total |
|---------------------------------|-------------------|------------------|---------------------------|--------|-------|
| Impaired loans                  | 4,826             | 2,268            | 264                       | 181    | 7,539 |
| Allowance for impairment losses |                   |                  |                           |        |       |
| – Individual assessment         | 2,459             | 745              | 26                        | 53     | 3,283 |
| – Collective assessment         | 269               | 176              | 112                       | 63     | 620   |

#### Bank

|                                 | Northern<br>China | Eastern<br>China | 2011<br>Southern<br>China | Others | Total |
|---------------------------------|-------------------|------------------|---------------------------|--------|-------|
| Impaired loans                  | 4,826             | 2,267            | 264                       | 180    | 7,537 |
| Allowance for impairment losses |                   |                  |                           |        |       |
| – Individual assessment         | 2,459             | 745              | 26                        | 53     | 3,283 |
| – Collective assessment         | 268               | 175              | 112                       | 63     | 618   |

#### Group and Bank

|                                 | Northern<br>China | Eastern<br>China | 2010<br>Southern<br>China | Others | Total |
|---------------------------------|-------------------|------------------|---------------------------|--------|-------|
| Impaired loans                  | 4,410             | 1,785            | 979                       | 165    | 7,339 |
| Allowance for impairment losses |                   |                  |                           |        |       |
| – Individual assessment         | 2,412             | 890              | 259                       | 22     | 3,583 |
| – Collective assessment         | 317               | 121              | 98                        | 78     | 614   |

# Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

## 3 Loans and advances to customers (Continued)

### (2) Loans overdue for more than 3 months by geographical area

#### Group and Bank

|                                 | Northern<br>China | Eastern<br>China | 2011<br>Southern<br>China | Others | Total |
|---------------------------------|-------------------|------------------|---------------------------|--------|-------|
| Overdue loans                   | 3,736             | 1,465            | 306                       | 184    | 5,691 |
| Allowance for impairment losses |                   |                  |                           |        |       |
| – Individual assessment         | 2,195             | 512              | 21                        | 45     | 2,773 |
| – Collective assessment         | 578               | 207              | 131                       | 70     | 986   |

|                                 | Northern<br>China | Eastern<br>China | 2010<br>Southern<br>China | Others | Total |
|---------------------------------|-------------------|------------------|---------------------------|--------|-------|
| Overdue loans                   | 3,213             | 1,004            | 587                       | 164    | 4,968 |
| Allowance for impairment losses |                   |                  |                           |        |       |
| – Individual assessment         | 2,071             | 526              | 182                       | 22     | 2,801 |
| – Collective assessment         | 465               | 131              | 110                       | 94     | 800   |

## 4 Cross-border claims

|  | 2011   |                  |        |        | Total  |
|--|--|------------------|--------|--------|--------|
|  | Asia pacific<br>excluding<br>mainland<br>China | North<br>America | Europe | Others |        |
| Banks and other financial institutions | 2,896  | 4,040            | 2,133  | –      | 9,069  |
| Public sector entities                 | 66   | 9                | –      | –      | 75     |
| Others                                 | 2,558  | 17               | –      | 682    | 3,257  |
| Total                                  | 5,520  | 4,066            | 2,133  | 682    | 12,401 |

|  | 2010   |                  |        |        | Total |
|--|--|------------------|--------|--------|-------|
|  | Asia pacific<br>excluding<br>mainland<br>China | North<br>America | Europe | Others |       |
| Banks and other financial institutions | 5  | 157              | 215    | 168    | 545   |
| Public sector entities                 | –  | 473              | –      | –      | 473   |
| Others                                 | –  | –                | 160    | –      | 160   |
| Total                                  | 5  | 630              | 375    | 168    | 1,178 |



# Index of Documents for Inspection

- I. Financial statements bearing the signatures and seals of the legal representative, the principle accountant and the manager of the accounting department
- II. Original copy of the independent auditor's report bearing the seal of the accounting firm
- III. Original copy of the annual report duly signed by the Directors and Senior Management of the Company
- IV. All original copies of documents and announcements disclosed to the public during the reporting period in the China Securities Journal, Shanghai Securities News and the Securities Times
- V. Articles of Association of the Company



# Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below.

|   |   |
|---|---|
| “ACFIC”:  | All-China Federation of Industry and Commerce                             |
| “Bank” or “Company “ or<br>“China Minsheng Bank” or<br>“Minsheng Bank”: | China Minsheng Banking Corp., Ltd.  |
| “Board”:  | the Board of Directors of the Company                                     |
| “CAS”:  | China Accounting Standards  |
| “CBD”:  | Central Business District   |
| “CBRC”:   | China Banking Regulatory Commission                                       |
| “CEO”:  | Chief Executive Officer   |
| “CFO”:  | Chief Financial Officer   |
| “CPPCC”:  | Chinese People’s Political Consultative Conference                        |
| “CSRC”:   | China Securities Regulatory Commission                                    |
| “Director”:   | a director of the Company   |
| “FCI”:  | Factors Chain International   |
| “Group”:  | the Company and its subsidiaries  |
| “Hong Kong Listing Rules”:  | the Rules Governing the Listing of Securities on Hong Kong Stock Exchange |
| “Hong Kong Stock Exchange”:   | The Stock Exchange of Hong Kong Limited                                   |
| “IFRS”:   | International Financial Reporting Standards                               |
| “IT”:   | Information Technology  |
| “LACP”:   | League of American Communications Professionals                           |

|                      |   |
|----------------------|---|
| “Model Code”:        | Model Code for Securities Transactions by Directors of listed Issuers, Appendix 10 to the Hong Kong Listing Rules |
| “MSE”:               | Small and Micro Enterprise  |
| “NSOE”:              | Non-state-owned Enterprise  |
| “RMB”:               | Renminbi  |
| “PBOC”:              | People’s Bank of China  |
| “SAFE”:              | State Administration of Foreign Exchange  |
| “SFO”:               | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |
| “SBU”:               | Strategic Business Unit   |
| “SME”:               | Small and Medium Enterprise   |
| “Supervisor”:        | a supervisor of the Company   |
| “Supervisory Board”: | the Supervisory Board of the Company  |
| “%”:                 | percent   |

# Organizational Chart



### ■ Beijing

#### Beijing Administrative Department

Address: No. 2 Fuxingmennei Avenue,  
Xicheng District, Beijing  
Postal Code: 100031  
Telephone no: 010-58560088  
Fax no: 010-58560001

### ■ Shanghai

#### Shanghai Branch

Address: No.100 Pudong Nan Road,  
Pudong New District, Shanghai  
Postal Code: 200120  
Telephone no: 021-61877000  
Fax no: 021-61877001

### ■ Guangzhou

#### Guangzhou Branch

Address: CMBC Building, No. 68 Liede Avenue,  
Tianhe District, Guangzhou  
Postal Code: 510623  
Telephone no: 020-38380111  
Fax no: 020-38380000

### ■ Shenzhen

#### Shenzhen Branch

Address: CMBC Building, 11th Xinzhou Street,  
Futian District, Shenzhen  
Postal Code: 518034  
Telephone no: 0755-82806002  
Fax no: 0755-82806555

### ■ Wuhan

#### Wuhan Branch

Address: CMBC Building, No.396 Xinhua Road,  
Jiangnan District, Wuhan  
Postal Code: 430020  
Telephone no: 027-85735529  
Fax no: 027-85735530

### ■ Dalian

#### Dalian Branch

Address: No. 28, Yan'an Road,  
Zhongshan District, Dalian  
Postal Code: 116001  
Telephone no: 0411-82802661  
Fax no: 0411-82819108

### ■ Taiyuan

#### Taiyuan Branch

Address: No. 2, Bingzhou Bei Road, Taiyuan  
Postal Code: 030001  
Telephone no: 0351-8208620  
Fax no: 0351-8208619

### ■ Shijiazhuang

#### Shijiazhuang Branch

Address: No. 10 Xidajie, Chang'an District,  
Shijiazhuang  
Postal Code: 050011  
Telephone no: 0311-86678533  
Fax no: 0311-86678522

### ■ Hangzhou

#### Hangzhou Branch

Address: Yuanyang Building, No. 25,  
Qingchun Road, Hangzhou  
Postal Code: 310009  
Telephone no: 0571-87232682  
Fax no: 0571-87239789

### ■ Nanjing

#### Nanjing Branch

Address: No. 20, Hongwu Bei Road, Nanjing  
Postal Code: 210005  
Telephone no: 025-83279000  
Fax no: 025-83279002

### ■ Chongqing

#### Chongqing Branch

Address: 22/F, Tongju Yuanjing Building, No. 9,  
Jianxin Bei Road, Jiangbei District,  
Chongqing  
Postal Code: 400020  
Telephone no: 023-67695186  
Fax no: 023-67695107

### ■ Xi'an

#### Xi'an Branch

Address: CMBC Building, No. 78,  
Erhuan Nanlu Xiduan, Xi'an  
Postal Code: 710065  
Telephone no: 029-88266088  
Fax no: 029-88266090

### ■ Fuzhou

#### Fuzhou Branch

Address: No. 280, Hudong Road, Fuzhou  
Postal Code: 350001  
Telephone no: 0591-87619126  
Fax no: 0591-87617310

### ■ Jinan

#### Jinan Branch

Address: No. 229, Leyuan Street, Jinan  
Postal Code: 250012  
Telephone no: 0531-86121680  
Fax no: 0531-86121690

### ■ Ningbo

#### Ningbo Branch

Address: No. 348, Min'an Road, Ningbo  
Postal Code: 315040  
Telephone no: 0574-87260600  
Fax no: 0574-87270075

### ■ Chengdu

#### Chengdu Branch

Address: Block 6, No. 966 Tianfu Avenue,  
Remin South Road Southern Extension,  
Chengdu  
Postal Code: 610042  
Telephone no: 028-85102110  
Fax no: 028-85102113

# List of Entities

## ■ Shantou Shantou Branch

Address: 1-3/F, Huajing Plaza, No. 17,  
Hanjiang Road, Shantou  
Postal Code: 515041  
Telephone no: 0754-88363056  
Fax no: 0754-88363055

## ■ Tianjin Tianjin Branch

Address: 13/F, Xinda Plaza, No. 188,  
Jiefang North Road,  
Heping District, Tianjin  
Postal Code: 300042  
Telephone no: 022-23315222  
Fax no: 022-23193965

## ■ Kunming Kunming Branch

Address: Chuntian Yinxiang Building, No. 331,  
Huancheng Nan Road, Kunming  
Postal Code: 650011  
Telephone no: 0871-3565666  
Fax no: 0871-3565000

## ■ Quanzhou Quanzhou Branch

Address: No. 689 Citong Road,  
Fengze District, Quanzhou  
Postal Code: 362000  
Telephone no: 0595-28008199  
Fax no: 0595-28008180

## ■ Suzhou Suzhou Branch

Address: Block 23, Suzhou Times Square,  
Jinji Lake, Suzhou Industrial Park,  
Suzhou  
Postal Code: 215021  
Telephone no: 0512-62569022  
Fax no: 0512-62569005

## ■ Qingdao Qingdao Branch

Address: Zhong Gang Plaza, No. 18,  
Fuzhou Nan Road,  
Qingdao  
Postal Code: 266071  
Telephone no: 0532-85978668  
Fax no: 0532-85978667

## ■ Wenzhou Wenzhou Branch

Address: Development Building, No. 335,  
Xincheng Road, Wenzhou  
Postal Code: 325001  
Telephone no: 0577-88903999  
Fax no: 0577-88903777

## ■ Xiamen Xiamen Branch

Address: 7/F, Lixin Plaza, No. 90,  
Hubin Nan Road, Xiamen  
Postal Code: 361004  
Telephone no: 0592-2383388  
Fax no: 0592-2682826

## ■ Zhengzhou Zhengzhou Branch

Address: CMBC Building, No. 1,  
CBD Shangwu Waihuan Road,  
Zhengdong New District, Zhengzhou  
Postal Code: 450008  
Telephone no: 0371-69166666  
Fax no: 0371-69166916

## ■ Changsha Changsha Branch

Address: No. 669, Furong Zhong Road 1 Duan,  
Changsha  
Postal Code: 410011  
Telephone no: 0731-84907000  
Fax no: 0731-84907010

## ■ Changchun Changchun Branch

Address: Jixin Building, No. 500,  
Changchun Street, Nanguan District,  
Changchun  
Postal Code: 130041  
Telephone no: 0431-88553293  
Fax no: 0431-88553099

## ■ Hefei Hefei Branch

Address: Tian Qing Building, No. 135,  
Bozhou Road, Hefei  
Postal Code: 230041  
Telephone no: 0551-5682900  
Fax no: 0551-5682901

## ■ Nanchang Nanchang Branch

Address: No. 237, Xiangshan Bei Road, Nanchang  
Postal Code: 330008  
Telephone no: 0791-6751157  
Fax no: 0791-6761557

## ■ Nanning Nanning Branch

Address: 1, 8 & 12/F,  
Guangxi Development Tower,  
No. 111-1 Minzu Avenue, Nanning  
Postal Code: 530022  
Telephone no: 0771-5772109  
Fax no: 0771-5772193

## ■ Hohhot

### Hohhot Branch

Address: Block D and 1-3/F, Block A,  
Fortune Building, Xinhua East Road,  
Saihan District, Hohhot

Postal Code: 010000

Telephone no: 0471-3333122

Fax no: 0471-3333081

## ■ Shenyang

### Shenyang Branch

Address: Block A, Royal Wan Xin  
International Mansion, No. 390,  
Qingnian Street, Heping District,  
Shenyang

Postal Code: 110003

Telephone no: 024-83912606

Fax no: 024-83912600

## ■ Hong Kong

### Hong Kong Branch

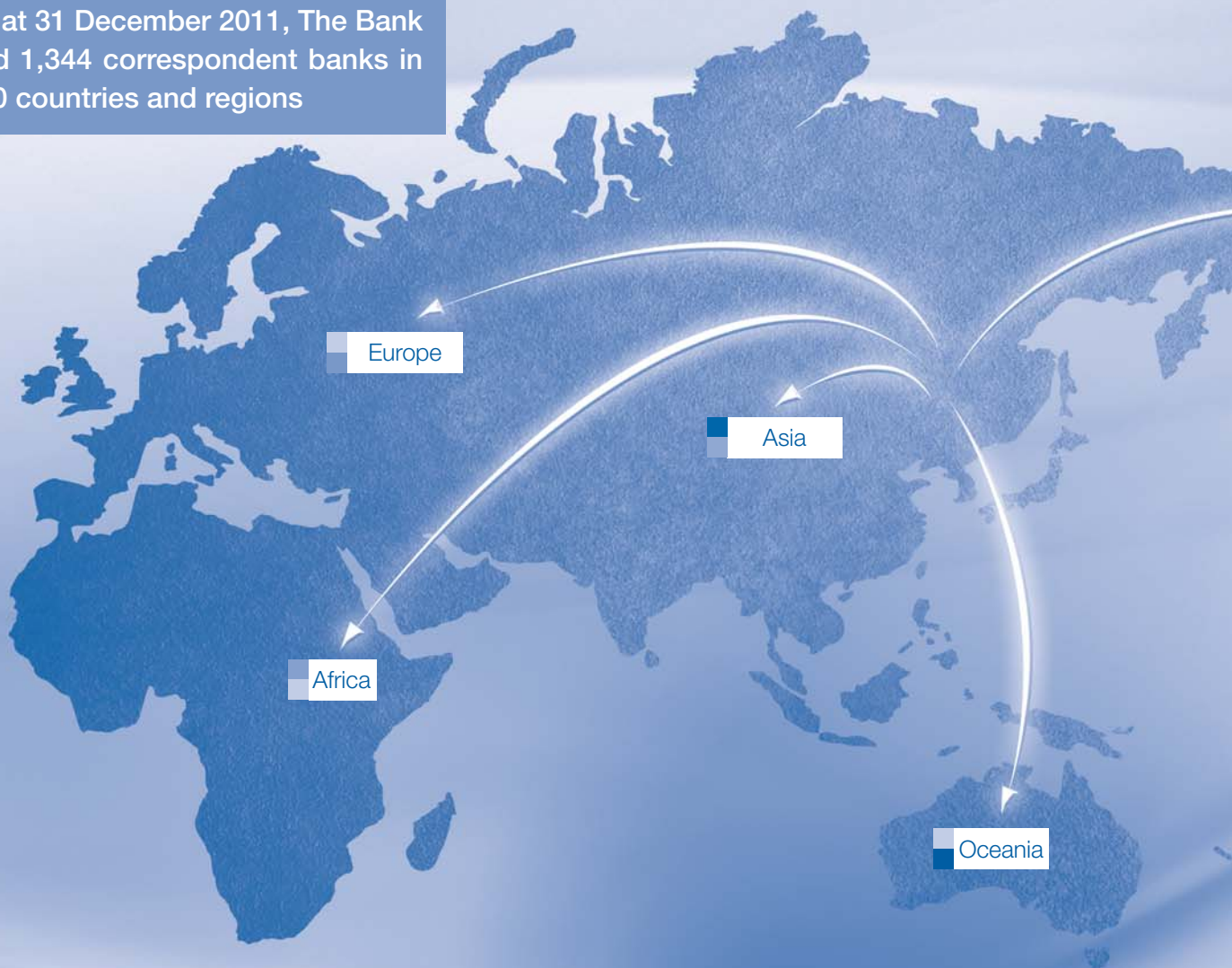
Address: 36/F, Bank of America Tower,  
12 Harcourt Road,  
Central, Hong Kong

Telephone no: 00852-22816800

Fax no: 00852-28994617

## Statistics of Correspondent Banks of China Minsheng Bank

As at 31 December 2011, The Bank had 1,344 correspondent banks in 110 countries and regions



### Asia (666 banks in 33 countries and regions)

|             |     |                          |    |             |   |
|-------------|-----|--------------------------|----|-------------|---|
| China       | 175 | India                    | 20 | Bangladesh  | 6 |
| Hong Kong   | 103 | Pakistan                 | 9  | Jordan      | 2 |
| Macau       | 10  | Lebanon                  | 1  | Qatar       | 3 |
| Taiwan      | 46  | Iran                     | 10 | Israel      | 6 |
| Japan       | 41  | The United Arab Emirates | 18 | Oman        | 3 |
| Singapore   | 64  | Cambodia                 | 1  | Bahrain     | 5 |
| South Korea | 35  | Nepal                    | 3  | Laos        | 1 |
| Thailand    | 17  | Saudi Arabia             | 7  | North Korea | 2 |
| Malaysia    | 17  | Kuwait                   | 3  | Syria       | 4 |
| Indonesia   | 21  | Vietnam                  | 22 | Iraq        | 1 |
| Philippines | 6   | Sri Lanka                | 3  | Mongolia    | 1 |

### Europe (446 banks in 39 countries)

|             |    |                       |    |                        |   |
|-------------|----|-----------------------|----|------------------------|---|
| Germany     | 78 | Austria               | 17 | Cyprus                 | 1 |
| England     | 47 | Hungary               | 7  | Belarus                | 2 |
| Ireland     | 5  | Belgium               | 13 | Lithuania              | 3 |
| Poland      | 6  | Luxemburg             | 9  | Norway                 | 7 |
| Switzerland | 19 | Portugal              | 8  | Bulgaria               | 3 |
| Netherlands | 16 | Romania               | 4  | Bosnia and Herzegovina | 1 |
| France      | 18 | Czech Republic        | 10 | Latvia                 | 2 |
| Spain       | 16 | Slovakia              | 5  | Ukraine                | 2 |
| Italy       | 63 | Croatia               | 2  | Malta                  | 3 |
| Sweden      | 12 | Russia                | 15 | Albania                | 1 |
| Denmark     | 7  | Slovenia              | 1  | Monaco                 | 1 |
| Greece      | 12 | Serbia and Montenegro | 1  | Liechtenstein          | 1 |
| Finland     | 8  | Turkey                | 17 | Kazakhstan             | 3 |





America

**America** (167 banks in 17 countries)

|                        |     |                |   |
|------------------------|-----|----------------|---|
| USA                    | 104 | Uruguay        | 5 |
| Canada                 | 15  | Cuba           | 1 |
| Peru                   | 4   | Panama         | 3 |
| Chile                  | 6   | Bolivia        | 2 |
| Bahamas                | 1   | Mexico         | 3 |
| Columbia               | 3   | Cayman Islands | 1 |
| Argentina              | 4   | Belize         | 1 |
| Brazil                 | 12  | Guatemala      | 1 |
| The Dominican Republic | 1   |                |   |

**Oceania** (28 banks in 3 countries)

|             |    |
|-------------|----|
| New Zealand | 6  |
| Australia   | 21 |
| Fiji        | 1  |

**Africa** (37 banks in 18 countries)

|              |   |            |   |
|--------------|---|------------|---|
| Egypt        | 9 | Morocco    | 2 |
| Tunisia      | 3 | Algeria    | 1 |
| South Africa | 5 | Congo      | 1 |
| Mauritius    | 2 | Libya      | 1 |
| Kenya        | 1 | Nigeria    | 3 |
| Namibia      | 1 | Mozambique | 1 |
| Zambia       | 1 | Ghana      | 1 |
| Cameroon     | 1 | Gabon      | 1 |
| Sudan        | 2 | Ethiopia   | 1 |







Add.: No. 2, Fuxingmennei Avenue, Xicheng District,  
Beijing, China

Tel. : (+86-10) 58560666

Fax. : (+86-10) 58560690

Zip Code: 100031

Website: [www.cmbc.com.cn](http://www.cmbc.com.cn)



This annual report is printed on environmental paper.