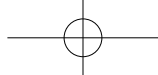


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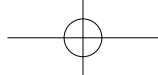


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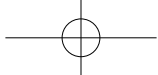
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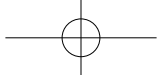
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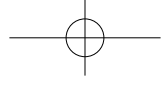
GOVERNOR'S MESSAGE

The year 2009 has been the most difficult year for China since the advent of the new century. Facing a very complex and grave economic situation, the CPC Central Committee and the State Council made prompt decisions to implement a proactive fiscal policy and an appropriately accommodative monetary policy, adopted a stimulus package to mitigate the impact of the financial crisis, and various measures to support economic growth, promote people's welfare and preserve social stability. As a result, the decline in growth was effectively reversed and the Chinese economy was among the first in the world to stabilize and recover.

In the past year, the People's Bank of China followed the overall arrangements of the State Council, making crisis response and supporting stable and relatively fast economic growth its top priority in financial measures of macroeconomic management, implemented appropriately accommodative monetary policy, enhanced credit policy guidance, focused policy measures on both money and credit aggregate management and structural improvement, continued to promote financial reform and to preserve financial safety and stability, actively participated in international financial exchanges and cooperation, and improved the quality of financial services.

The Financial Measures Aimed at Macroeconomic Management Produced Good Results

The PBC conducted open market operations in a flexible manner to maintain adequate liquidity in the banking system, and strengthened window guidance to financial institutions so as to give strong money and credit support to the economic development. Against the background of liquidity crunch in the international financial markets and deep recession of the world economy, the PBC implemented an appropriately accommodative monetary policy, provided strong money and credit support in reversing the decline in growth rate and supporting economic recovery, and played an important role in economic recovery. At year-end, broad money M2 grew by 27.7 percent, representing an acceleration of 9.9 percentage points from the previous year. In 2009, new local currency loans totaled 9.59 trillion yuan, up 4.69 trillion yuan from the previous year. The ten measures to boost domestic demand and promote stable and relatively fast economic growth and the stimulus package were effectively implemented, and the coordination between monetary, fiscal and industrial policies was enhanced. The conduct of monetary policy was more targeted, forward looking and effective in guiding financial institutions to increase lending to central government-invested projects and provide financial services to the sales programs of home electric appliances and automobiles to the countryside. The PBC also released guidelines on providing financial services to support restructuring and revitalization of important industries, containing excess capacity, and to support collective forestry right reform and development of



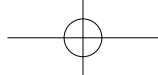
the service outsourcing industry. It took measures to encourage innovation in rural financial products and delivery of services and to increase credit support to rural development, agriculture and farmers, SMEs, western development, protection of eco-environment, post-disaster reconstruction, other important and needy areas in the national economy. The central bank lending quota was increased by 10 billion yuan to western China and grain producing areas. At the end of 2009, agriculture-related loans outstanding of all financial institutions, outstanding loans to SMEs, and outstanding loans to western China increased 32.3 percent, 30.1 percent year, and 37.6 percent respectively year on year to 9.14 trillion yuan, 14.4 trillion yuan, and 7.08 trillion yuan. The PBC issued credit risk warnings to commercial banks and urged them to strictly control lending to high energy consuming, high polluting enterprises and those sub-standard enterprises in industries with excess capacity.

Works to Promote Financial Reform and Preserve Financial Stability Has Been Comprehensive

The reform of the Agricultural Bank of China achieved breakthroughs and the reform of policy financial institutions made further progress. Work was done to make systematic assessment of the reform of large state-owned commercial banks. Foreign exchange administration reform was deepened to facilitate trade and investment, improve external debt management and support Chinese companies going overseas. Active measures were taken to crack down on foreign exchange-related irregularities and criminal activities. Administration was strengthened to support balanced management of cross-border flow and forestall risks. Monitoring of systemic risks has been strengthened in the banking, securities and insurance industries. The risk monitoring of cross-sector financial instruments was enhanced. The PBC worked together with supervisory authorities to address cases of illegal fund raising. The financial sector assessment program has been launched in China. Moreover, the institutional building of the deposit insurance scheme made headways.

The Interbank Market Was Deepened and Broadened

Steps were taken to improve regulation of bond issuing as well as depository trust and clearing in the interbank market, improve the institutional arrangements for OTC derivative trading, and introduce interbank discount of commercial drafts. More measures have been taken to foster the benchmark interest rate system in the money market. The market maker system has been improved. The Shanghai Clearing House was established. Measures were taken to expand the range of bond issuers. The pilot projects of short-term financing bills, medium-term notes and collective bond issuing by non-financial SMEs continued. A total of 1 475.8 billion yuan of financial bonds, 462.7 billion yuan of short-term financing bills, and 695.0 billion yuan of medium-term notes were issued. Operation research was in progress to start pilot REITs.

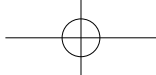


International Exchanges and Cooperation Was Enhanced

The PBC actively participated in the global economic governance reform and put forward policy proposals on reforming the international monetary system and the international financial regulatory framework. The PBC made active exploration in increasing China's voice in international economic and financial institutions, and supported the IMF to issue bonds and allocate more SDRs. The PBC has joined international standard setting organizations including the Financial Stability Board, Basel Committee on Banking Supervision, and the Committee on the Global Financial System. At the bilateral level, the PBC took part in several bilateral dialogue mechanisms, such as the China-US Strategic and Economic Dialogue, China-UK High Level Economic and Financial Dialogue, China-EU Central Bank Working Group Dialogue, and China-Japan High Level Economic Dialogues. To respond to the need of fellow central banks and monetary authorities, the PBC has established bilateral local currency swap arrangements with several central banks and monetary authorities in the region. China has joined the Inter-American Development Bank and the PBC started substantive cooperation with the Bank, and played an important role in deepening cooperation within the Executives Meeting of East Asia and Pacific Central Banks (EMEAP) framework in order to establish a financial stability and safety net. Multilateralization of the Chiang Mai Initiative registered material progress. The RMB business grew steadily in the Hong Kong SAR, and the scope of pilot RMB business was expanded in the Macao SAR. The cross-Taiwan Straits financial cooperation was further enhanced. The pilot RMB settlement of cross-border trade transactions moved forward smoothly since its launch in July 2009.

New Progress Was Made in Improving Financial Services and Management

Financial legislation was improved, and many measures were adopted to promote administration according to law. The financial statistical data was centralized and the macroeconomic and financial indicator and analysis framework was further optimized. The financial statistics report, corporate goods price index and economic performance analysis report were released regularly. The electronic commercial draft system was launched and operated smoothly. The real name bank account system was further enforced. A long-term mechanism was established to crack down on bankcard related crimes. Many measures were adopted to promote the use of non-cash payment instruments in rural areas and improve the payment environment there. Coordination was made to organize the issuing of serviceman social security cards, and the pilot project of financial standard-based IC cards for urban residents became a success. The building of a financial sector standardization framework advanced. The PBC allocated currency issuance fund flexibly to guarantee cash supply and cooperated with the public security authorities in the anti-currency forgery campaign. The building of an anti-currency forgery awareness network was underway. The network connecting the systems of fiscal authority, state

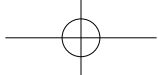


treasury, taxation authority, and commercial banks covered 28 provinces (and autonomous regions and municipalities directly under the central government), and the treasury centralized booking system (TCBS) was introduced to the pilot provinces and municipalities. The PBC took the lead in organizing the ministerial joint conference on the establishment of the social credit registration system, and took measures to strengthen supervision of credit information agencies and market, to push forward the establishment of the integrated credit information services platform for the financial industry, and to work hard in the construction of the credit information system of SMEs and in rural areas respectively. Anti-money laundering oversight was intensified in the money laundering prone areas of on-line financial transactions and cash business, and the quality of anti-money laundering monitoring and analysis improved. The PBC took an active part in international cooperation in anti-money laundering and reactivated the membership in the APG.

In 2010, the recovery and rebound of the Chinese economy will be more solidly based. However, there are still many uncertain and unpredictable factors, especially the increasing difficulties in economic restructuring and transforming the growth pattern. Following the guidance of Deng Xiaoping Theory and the important thinking of Three Represents, the PBC will continue to implement the decisions adopted at the 17th CPC National Congress, the 3rd and 4th Plenary Meetings of the 17th CPC Central Committee, and the Central Economic Work Conference, follow the scientific development approach, maintain consistency and stability of monetary policy, continue the relatively easy monetary policy, adopt more targeted and flexible policy measures to strike a balance among supporting sound and rapid economic growth, adjusting economic structure and managing inflation expectations, promote financial reform and innovation, maintain financial stability, prevent systemic risks, improve the quality of financial services, and support sound and rapid growth of the Chinese economy.

Governor of the PBC

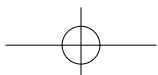
April 18, 2010

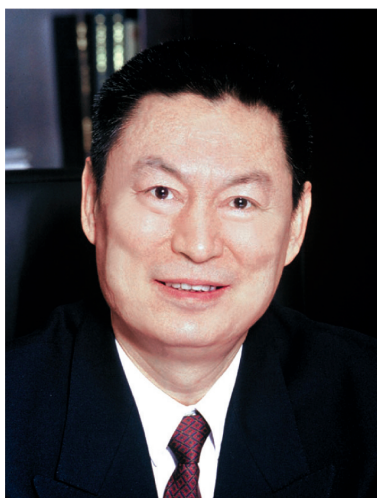
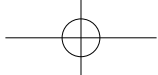


THE MANAGEMENT OF THE PEOPLE'S BANK OF CHINA



Zhou Xiaochuan
Governor of the PBC





Su Ning
Deputy Governor



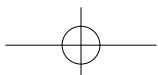
Wang Hongzhang
Chief Disciplinary Officer

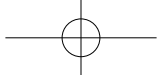


Hu Xiaolian
Deputy Governor



Liu Shiyu
Deputy Governor





Ma Delun

Deputy Governor



Yi Gang

Deputy Governor
Administrator of the SAFE



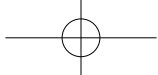
Zhu Min

Deputy Governor



Du Jinfu

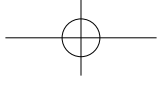
Assistant Governor



Li Dong Rong
Assistant Governor



Guo Qingping
Assistant Governor



MAJOR RESPONSIBILITIES OF THE PEOPLE'S BANK OF CHINA

1. Make strategic plans for the reform and development of the financial industry, conduct research on and coordinate the solution of major issues arising from financial system operation, promote the healthy development of the financial industry, take part in evaluating the impacts of major mergers and acquisitions on the financial safety of the country and propose related policy recommendations, and promote the well-sequenced opening-up of the financial industry.

2. Draft laws and regulations, improve rules governing the operation of certain financial institutions, promulgate orders and regulations pertaining to its mandate.

3. Make and conduct monetary policy according to laws and regulations; make credit policy on a macro level and provide guidance to financial institutions accordingly.

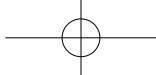
4. Improve the financial mechanism of macroeconomic management system, prevent and mitigate systemic financial risks, and maintain the country's financial stability and safety.

5. Make and conduct RMB exchange rate policy, improve the RMB exchange rate formation mechanism, maintain equilibrium of the balance of payments account, carry out foreign exchange administration, follow developments of the international financial markets and provide risk warnings accordingly, monitor and manage cross-border capital flows, and hold, manage and operate the foreign exchange and gold reserves.

6. Regulate the interbank borrowing market, the interbank bond market, the interbank paper market, the interbank foreign exchange market, the gold market and trading of derivatives in these mentioned markets.

7. Work with financial supervisory authorities to make rules for regulation and supervision of financial holding companies and to establish provisions and standards for financial businesses that operate across sectors, and oversee the financial holding companies and cross-sector financial instruments.

8. Undertake the obligations as the lender of the last resort, and inspect the behaviours of institutions in which the central bank injects funds in order to resolve financial risks.



9. Design and put in place a comprehensive statistics system for the financial system, collect and aggregate data and provide macroeconomic analysis and projection, compile statistics of the entire financial industry and make them public according to relevant provisions and rules.

10. Work out the development plans for the informatization of the financial industry, undertake the coordination work related to the financial industry standardization, and guide the financial information security work of the financial industry.

11. Issue RMB banknotes and coins, and manage RMB circulation.

12. Make plans for national payment system development, lead the building of the national payment system, stipulate payment and settlement rules together with other related government agencies, and keep sound performance of the national payment and clearing system.

13. Manage the state treasury.

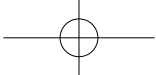
14. Organize, coordinate, regulate national anti-money laundering work nationwide, and monitor funds involved in suspected money laundering and terrorist financing activities.

15. Regulate the credit information service industry, and promote the building of a social credit system.

16. Engage in international financial activities related to its mandate.

17. Engage in financial operations in accordance with relevant provisions.

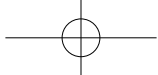
18. Undertake other assignments from the State Council.



MEMBERS OF THE MONETARY POLICY COMMITTEE



Chairman	Zhou Xiaochuan
Member	You Quan
Member	Zhu Zhixin
Member	Li Yong
Member	Su Ning
Member	Hu Xiaolian
Member	Ma Jiantang
Member	Yi Gang
Member	Liu Mingkang
Member	Shang Fulin
Member	Wu Dingfu
Member	Jiang Chaoliang
Member	Fan Gang



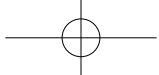
ORGANIZATIONAL STRUCTURE OF THE PEOPLE'S BANK OF CHINA

THE PBC HEAD OFFICE (PBCHO)

General Administration Department (General Office of the CPC PBC Committee)
Legal Affairs Department
Monetary Policy Department
Monetary Policy Department II
Financial Market Department
Financial Stability Bureau
Financial Survey and Statistics Department
Accounting and Treasury Department
Payment System Department
Technology Department
Currency Gold and Silver Bureau
State Treasury Bureau
International Department (Office of Hong Kong, Macao and Taiwan Affairs)
Internal Auditing Department
Personnel Department (Organization Division of the CPC PBC Committee)
Research Bureau
Credit Information System Bureau
Anti-money Laundering Bureau (Security Bureau)
Educational Department of the CPC PBC Committee
Disciplinary Committee of the PBC
CPC Committee of the PBC Head Office
Retired Staff Management Bureau
Office of Senior Advisors
Staff Union Committee
Youth League

GOVERNMENT AGENCY DIRECTLY UNDER THE PBC

State Administration of Foreign Exchange
--



THE PBC SHANGHAI HEAD OFFICE (PBCSHO)

General Administration Department (General Office of the
CPC PBC Committee)

Open Market Operations Department

Financial Market Management Department

Financial Stability Department

Statistics and Research Department

International Department

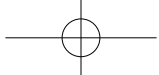
Financial Service Department I

Financial Service Department II

Foreign Exchange Management Department

Human Resources Department (Organization and Education
Division of the CPC PBC Committee)

Discipline Enforcement and Supervision Department
(Internal Auditing Division)



THE PBC REGIONAL BRANCHES AND OPERATIONS OFFICE

Tianjin Branch

Shenyang Branch

Nanjing Branch

Jinan Branch

Wuhan Branch

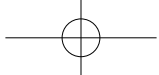
Guangzhou Branch

Chengdu Branch

Xi'an Branch

Operations Office (Beijing)

Chongqing Operations Office



SUB-BRANCHES IN BOTH PROVINCIAL CAPITAL CITIES AND QUASI PROVINCE-LEVEL CITIES

Shijiazhuang Sub-branch

Taiyuan Sub-branch

Hohhot Sub-branch

Changchun Sub-branch

Harbin Sub-branch

Hangzhou Sub-branch

Fuzhou Sub-branch

Hefei Sub-branch

Zhengzhou Sub-branch

Nanchang Sub-branch

Changsha Sub-branch

Nanning Sub-branch

Haikou Sub-branch

Guiyang Sub-branch

Kunming Sub-branch

Lasa Sub-branch

Lanzhou Sub-branch

Xining Sub-branch

Yinchuan Sub-branch

Urumqi Sub-branch

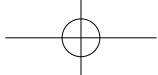
Dalian Sub-branch

Qingdao Sub-branch

Ningbo Sub-branch

Xiamen Sub-branch

Shenzhen Sub-branch



ORGANIZATIONS OF THE PBC (NUMBER)

Departments and Bureaus at the PBCHO	25
Institutions Abroad	9
Enterprises and Institutions Directly under the PBCHO	23
Departments at the PBCSHO	11
Regional Branches and Operations Offices	10
Sub-branches in Provincial Capital Cities	20
Sub-branches in Quasi Province-level Cities	5
Sub-branches in Prefecture-level Cities	308
County-level Sub-branches	1 766



MACROECONOMIC PERFORMANCE

In 2009, under the effects of the stimulus policy package including a proactive fiscal policy and an appropriately accommodative monetary policy, the Chinese economy withstood the severe test of the global financial crisis. China was among the first that saw economic recovery and an upturn in the economy, with growth gaining pace quarter on quarter, market confidence evidently enhancing, domestic demand rebounding, enterprise profits gradually improving, household income increasing steadily and employment situation turning better than expected. In 2010, along with the continuous recovery of the world economy and further release of the domestic demand potential, the Chinese economy will develop in a more favorable environment compared with 2009. However, difficulties may still exist amid the economic recovery and upturn. At the global level, the influence of the global financial crises will continue. Domestically, since the rebound in domestic demand has not been established on a balanced foundation, inflation pressure will increase gradually. Therefore, efforts should be made to properly handle the relationship among supporting sound and rapid economic growth, restructuring the economy, and managing inflation expectations. Steps should also be taken to accelerate the transformation of economic growth pattern.

China's Macroeconomic Performance in 2009

Economic growth accelerated quarter by quarter, and market confidence evidently enhanced

According to the calculation of the National Bureau of Statistics (NBS), China's GDP reached 33 535.3 billion yuan, representing an increase of 8.7 percent and a deceleration of 0.9 percentage points on a comparable basis from 2008. In particular, final consumption, capital formation, and net exports of goods and services drove GDP by 4.6, 8.0 and -3.9 percentage points respectively, contributing to 52.5, 92.3, and -44.8 percent of GDP growth. Broken down by quarters, GDP accelerated quarter by quarter, with quarterly growth reaching 6.2, 7.9, 9.1 and 10.7 percent respectively on a year-on-year basis (Figure 1). Broken down by industries, the added value of the primary industry grew by 4.2 percent year-on-year to 3 547.7 billion yuan, a deceleration of 1.3 percentage points from a year earlier; the added value of the secondary industry increased by 9.5 percent year on year to 15 695.8 billion yuan, up 0.2 percentage points

from the growth in 2008; the added value of the tertiary industry rose by 8.9 percent year on year to 14 291.8 billion yuan, a deceleration of 0.6 percentage points from 2008. In terms of the proportion of GDP, the share of the primary, the secondary and the tertiary industry in GDP was 10.6, 46.8 and 42.6 percent respectively, down 0.2 and 0.6 percentage points and up 0.8 percentage points respectively from 2008.

Figure 1 Quarterly and Accumulative Year-on-year Growth of GDP, 2000~2009



Source: The National Bureau of Statistics of China.

With economic growth being gradually restored, market confidence enhanced remarkably. As shown in the People's Bank of China (PBC) survey of 5 000 enterprises, in Q4 2009, the enterprise confidence index saw an accumulative increase of 19.8 percentage points on a year-on-year basis, reaching a record high since Q3 2007. Business activity index moved upward for three consecutive quarters after hitting the trough in Q1 2009. Market confidence on economic recovery intensified evidently.

Industrial production rebounded quarter by quarter, and enterprise profits steadily improved

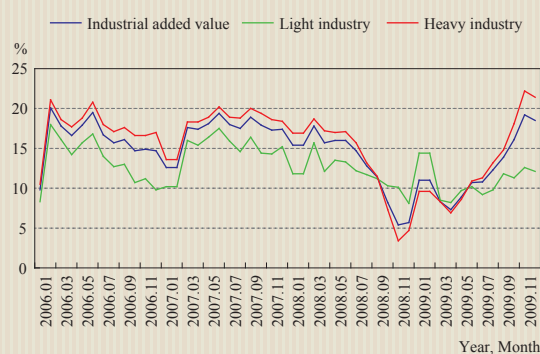
In 2009, the added value of the statistically large enterprises registered a year-on-year increase of 11.0 percent, down 1.9 percentage points from 2008, with quarterly growth rebounding steadily from 5.1 percent in Q1 2009 to 9.1 percent in Q2, 12.4 percent in Q3, and 18.0 percent in Q4. In terms of the trend of industries, heavy industry grew at a faster pace than light industry, reflecting a push from rapid investment growth. However, since the second half of the year, the recovery of light industry accelerated, indicating strengthened endogenous economic drivers (Figure 2). At end-November, profit of the statistically large industrial enterprises saw a

positive growth after decelerating for 10 consecutive months. From January through November, the profit of the statistically large industrial enterprises grew by 7.8 percent year on year to 2 589.1 billion yuan, representing an acceleration of 2.9 percentage points from the same period of 2008, and an increase of 45.0, 30.6 and 18.4 percentage points from the first 2, 5 and 8 months respectively.

Domestic demand increased rapidly and external demand turned for the better

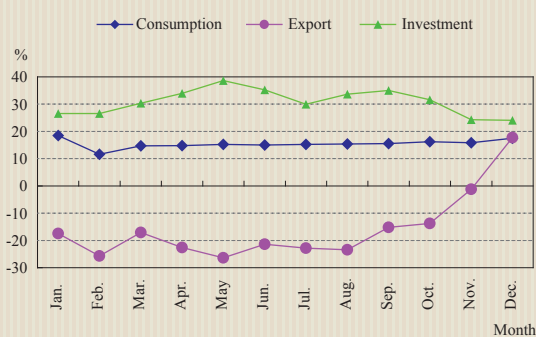
In 2009, total fixed-asset investment amounted to 22 484.6 billion yuan, up 30.1 percent year on year nominally, an acceleration of 4.6 percentage points, and up 33.3 percent in real terms, an acceleration of 18.1 percentage points from the previous year. In particular, fixed-asset investment in urban areas registered 19 413.9 billion yuan, up 30.5 percent year on year nominally, an acceleration of 4.4 percentage points, and up 33.8 percent in real terms, an acceleration of 18 percentage points over 2008. In 2009 total retail sales recorded 12 534.3 billion yuan, increasing by 15.5 percent nominally, a deceleration of 6.1 percentage points, and up 16.9 percent in real terms, an acceleration of 2.1 percentage points over 2008.

Figure 2 The Year-on-year Growth of Industrial Production



Source: The National Bureau of Statistics of China.

Figure 3 Nominal Monthly Growth of the Three Major Demands in 2009



Source: The National Bureau of Statistics of China.



In 2009, exports stood at US\$1 201.7 billion, down 16.0 percent year on year; imports registered US\$1 005.6 billion, a decrease of 11.2 percent over 2008. The trade surplus posted US\$196.1 billion, down US\$102 billion compared with the previous year. In terms of monthly movements, along with the global economic recovery, China's exports recovered gradually since August. Import growth and export growth turned positive in November and December respectively, putting an end to the negative growth since November 2008 (Figure 3).

Household income grew at a steady pace, and employment situation was better than expected

In 2009, the per capita disposable income of urban households registered 17 175 yuan, representing a nominal increase of 8.8 percent and a real growth of 9.8 percent, an acceleration of 1.4 percentage points in real terms over 2008. The per capita net income of farmers stood at 5 153 yuan, amounting to a nominal increase of 8.2 percent and a real growth of 8.5 percent, an acceleration of 0.6 percentage points in real terms compared with the previous year. Since the second half of 2009, while the economy continued to recover both at home and abroad, enterprises saw a gradual rebound in orders, boosting the labor market. In December, PMI employment index was 52.2 percent, maintaining in the growth zone of above 50 percent since June. According to the statistics of the NBS, 9.1 million jobs were created in urban area in 2009, and rural migrant workers totaled 149 million at the end of the year, increasing by 1.7 million from the end of the first quarter.

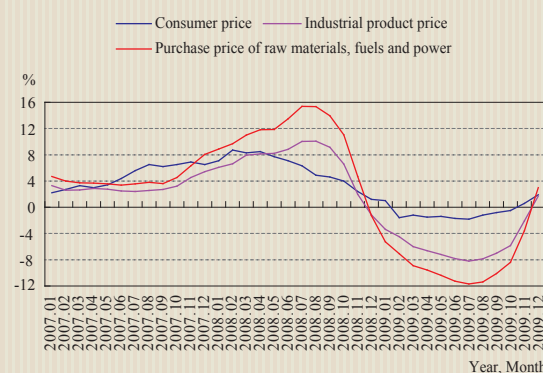
Inflation picked up after declining, with upward pressure intensifying

In 2009 consumer prices Index (CPI) decreased and then rebounded. Affected by the weakened demand as a result of the global financial crisis and high base number in 2008, CPI fell by 1.6 percent year on year in February, the first negative growth since 2003. Since then, due to

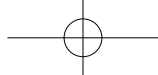
a more established domestic economic stabilization and recovery and the lessened impact of a negative tailing effect, CPI began to recover. In November, CPI rose by 0.6 percent, ending a nine-month decline. In 2009 CPI declined 0.7 percent year on year, 6.6 percentage points lower compared with 2008. From Q1 through Q4, the year-on-year CPI growth stood at -0.6, -1.5, -1.3, and 0.7 percent respectively.

Producer Price Index (PPI) rebounded rapidly after falling significantly. In the first half of 2009, PPI continued its declining trend since September 2008, with decrease intensifying month by month. In July, PPI saw a decline of 9.2 percent year on year, hitting a historical low. Since then, driven by continued increase in bulk commodity prices in the international market and domestic economic recovery, PPI and the price of capital goods began to pick up. In December, PPI grew by 1.7 percent year on year, ceasing the negative year on year growth for 12 months in a row. In 2009, PPI declined 5.4 percent year on year, 12.3 percentage points lower compared with 2008. From Q1 through Q4, PPI decrease posted 4.6 percent, 7.2 percent, 7.7 percent and 2.1 percent respectively. The purchase price of raw materials, fuels and power dropped 7.9 percent year on year, 18.4 percentage points lower compared with

Figure 4 Movements of Major Price Indices, 2007~2009



Source: The National Bureau of Statistics of China.



2008, and the decrease registered 7.1, 10.4, 11.1, and 3.0 percent respectively from Q1 through Q4. In 2009, the Corporate Goods Price Index (CGPI) monitored by the PBC fell by 5.0 percent year on year, a deceleration of 11.9 percentage points over 2008, and the decrease registered 5.6, 7.6, 7.0, and 0.0 percent respectively from Q1 through Q4 (Figure 4).

Macroeconomic Outlook in 2010

The Chinese economy is expected to continue its sound and relatively rapid growth

In 2010, the Chinese economy will develop in a more favorable environment compared with 2009. With respect to the external environment, the worst of the global financial crisis is over, and the world economy will continue to recover, despite some uncertainties. According to the forecasts of the IMF, global economic growth will reach 4.2 percent in 2010, which is a remarkable upturn from a contraction of 0.8 percent in 2009. In terms of consumption, urban consumption is undergoing a structural upgrading. Urbanization and upgrading of the consumption structure are expected to provide a stronger push for growth. Rural consumption will also expand as income grows. In addition, higher social security level, continued medical and healthcare reforms, and increased agricultural subsidies will lead to higher household income and a propensity for consumption. In terms of investment, with economic recovery and confidence further strengthening, enterprises are more willing to increase investment. From a longer-term perspective, investment in industrial relocation, economic restructuring and infrastructure still has large room to expand. Increasing investment on the basis of economic restructuring remains an important engine for China's sound and rapid economic development.

Intensified efforts will be made to promote the shift in the growth pattern and economic restructuring

The impact of the international financial crisis in essence has been on the growth pattern, although it appears as an impact on the growth rate. While boosting domestic demand, efforts should also be made to push forward the restructuring of the economy and industrial structure, promote self-initiated innovation as well as energy conservation and emission reductions, foster social construction focusing on improving people's livelihood, accelerate the development of the culture industry, transform the growth pattern of foreign trade, and encourage enterprises to invest overseas. Meanwhile, measures should be taken to speed up the reform of tax and revenue system, financial system and the pricing mechanism of natural resources so as to provide strong support to step up the transformation of the growth pattern and economic restructuring.

Priority will be given to stability of the general price

On the one hand, while external demand remains weak, continuous grain harvests, escalated labor productivity in most of the terminal consumer goods, abundant market supply, and overcapacity in certain sectors at home will help to stabilize prices. On the other hand, against the backdrop of a loose monetary condition around the world as well as rapid growth of domestic money and credit, price stability faces heightened potential risks as the economy improves and market confidence strengthens. Therefore, macroeconomic policies should be better targeted and more flexible in response to changing situations, and a series of steps should be taken to guarantee the supply of agricultural products, curb the soaring housing price in some cities and manage inflation expectations so as to rein in rapid price hikes.



GLOBAL ECONOMIC AND FINANCIAL SITUATION

Low growth rate of the global economy has been kept for a rather long period since the financial crisis. The data in the April report of the International Monetary Fund (IMF) in 2010 showed that total output of the global economy in 2009 contracted 0.6 percent. After the outbreak of the crisis, the major economies have successively introduced a number of unconventional policy measures to stimulate the economy and conducted extensive coordination and cooperation, which not only supported the increase in aggregate demand but also reduced the uncertainty of financial market and systemic risks. The major economies have gradually shown signs of recovery after mid-2009, but the foundation of recovery is still unsteady and the recovery process will remain slow.

Economic Situation in the Major Developed Economies in 2009

The U.S. economy achieved initial recovery

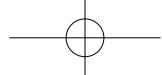
In 2009, U.S. GDP fell 2.4 percent, the first negative growth since 1991 and the lowest since 1946. But U.S. GDP kept consecutive growth in the third and fourth quarters and the annualized, sequential growth rate of 5.6 percent in the fourth quarter was 3.4 percentage points higher than that in the third quarter. Trade deficit declined slightly to US\$380.7 billion in 2009, 45 percent lower than the previous year. Prices showed signs of stabilization and CPI growth rate in October, November and December was -0.2 percent, 1.8 percent and 2.7 percent respectively.

But the momentum of economic recovery was still insufficient. Personal consumption was rather sluggish with confidence still lacking. The aggregate retail sales fell 6.2 percent, the lowest since 1993 when the U.S. began to collect the aggregate retail sales data. Unemployment rate was high and that rate in October, November and December reached 10.2 percent, 10 percent and 10 percent. Fiscal deficit continued to rise for 15 consecutive months. The U.S. Department of Treasury released that the U.S. fiscal deficit reached

a record high of US\$1.42 trillion in September 30, fiscal year 2009, the highest level since World War II, accounting for about 10 percent of the U.S. GDP. The deficit in December was US\$91.9 billion, setting a new single-month record high.

The Euro area economy showed signs of improvement

The post-crisis Euro area economy went into the mire of recession, but got improved because of consumption and public expenditure driven by massive economic stimulus package of the government. Euro area GDP fell 4.1 percent in 2009. Euro area economy began to rebound in the third quarter after 5 consecutive quarters of negative quarter-on-quarter growth; the quarter-on-quarter growth rates of GDP in 4 quarters were -2.5 percent, -0.1 percent, 0.4 percent and 0 percent respectively. The Euro area maintained large foreign trade surplus, which totaled to EUR22.3 billion in 2009 and EUR12.3 billion in July 2009. Price decline was basically under control; inflation rate was zero in May followed by negative growth in the next months and the Harmonized Index of Consumer Prices (HICP) rose 0.5 percent in November and 0.9 percent in December. Employment situation remained severe and the unemployment rate in October, November and December amounted to 9.8 percent, 9.9 percent and 10 percent respectively.



Japan's economy was not optimistic

Japan's GDP fell 5.2 percent in 2009. Japan has repeatedly introduced stimulus plans since the crisis with accumulative expenditure reaching about US\$300 billion. Meanwhile, the Bank of Japan maintained base interest rate at ultra-low level of 0.1 percent and injected large-scale liquidity into the market. Japan's quarter-on-quarter GDP growth rates in 4 quarters were -12.4 percent, 0.7 percent, 1.2 percent and 1.1 percent respectively. Employment situation got gradual improvement; the unemployment rate in July reached the peak of 5.7 percent since World War II, declined consecutively in the next 5 months and reached 5.1 percent in December. Foreign trade stabilized; positive sequential growth continued for several months since the beginning of 2009. In 2009, Japan's imports and exports were respectively JPY51.4 trillion and JPY54.2 trillion, decreasing 34.9 percent and 33.1 percent year on year, trade surplus amounted to JPY2.8 trillion, increasing 36.1 percent, the first time to increase in the recent two years. Prices continued to decline for 11 consecutive months till December when CPI fell 1.7 percent.

Economic Situation in the Emerging Economies in 2009

Emerging economies, as a whole, recovered, but in different paces. Asian economies kept strong growth, economies in Middle East and Eastern Europe recovered more slowly and economies in Latin America showed differentiation.

After the outbreak of the crisis, the major economies in Asia introduced in time large-scale economic stimulus programs, increased investment in infrastructure projects, expanded domestic demand and strengthened regional cooperation. Furthermore, before the crisis, the economies in Asia had healthier financial systems, better fiscal conditions, more favorable balance of payments and less external debt burden. Therefore, signs of bottoming

and recovering in some Asian economies appeared while developed economies were hovering in the financial crisis. The recovery of major economies in the region became more apparent. China and India maintained high economic growth and India's GDP rose 5.7 percent in 2009. The declining range of economic growth rates of the four emerging industrialized economies ~ Korea, Singapore, the Hong Kong SAR and Taiwan that were heavily affected by the financial crisis ~ got gradually narrowed since the second quarter although they were still not out of recession as a whole. GDP growth rates in the four economies in 2009 were 0.2 percent, -2.0 percent, -2.7 percent and -1.9 percent respectively.

Economic recovery in the Middle East area was full of twists and turns. The economies in some nations achieved modest growth, among which Saudi Arabia's GDP increased 0.2 percent and Iran's GDP growth rate reached 1.6 percent. However, the debt crisis erupted in Dubai on November 25, 2009 caused turmoil in the global financial market and directly spread to Greece, Spain and the Baltic countries.

The crisis caused the economies in Latin America and the Caribbean region to face negative growth for the first time after six consecutive years' economic growth. Economic Commission for Latin America and the Caribbean estimated that the economic growth in the region would be -1.8 percent in 2009. The impact of the financial crisis on Latin American countries varied in scope and depth and the regional economy showed significant differentiation. Mexico and some central American and Caribbean countries were affected more severely by the crisis. Signs of economic recovery began to appear in the region since the second quarter. Argentina, Brazil, Colombia, Peru and other South American countries achieved more rapid recovery.

The momentum of economic recovery in Eastern European countries remained relatively slow due to their governments' rather heavy financial burden, fragile financial system and less attractiveness to foreign

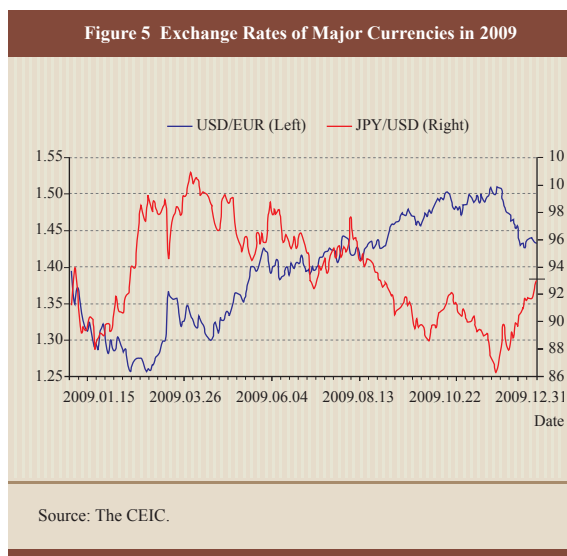


investors. In addition to GDP growth of 1.7 percent in Poland, the majority of the countries were still in recession.

The Situation in Global Financial Markets

International foreign exchange markets

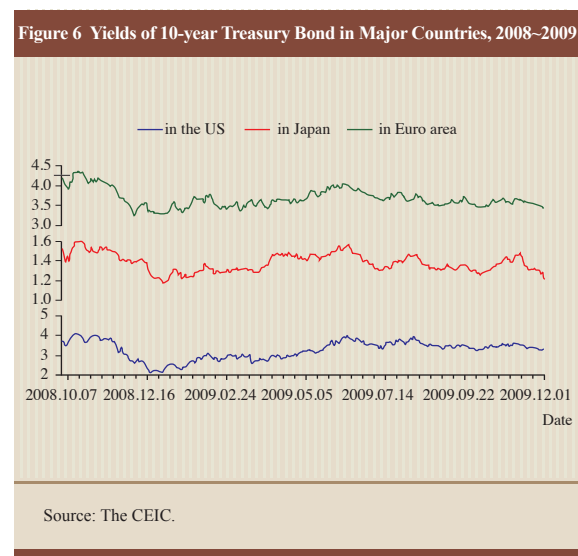
The exchange rates between major currencies fluctuated widely and that of the US dollar against the Japanese yen and the euro had mixed movements in 2009. On December 31, the US dollar stood at 1.4332 against the euro and the Japanese yen settled at 93.08 against the US dollar. In 2009, the US dollar depreciated 2.77 percent against the euro; the offer of the US dollar against the euro reached the peak of 1.2547 on February 18 and fell to the bottom of 1.5029 on October 23. The US dollar appreciated 2.15 percent against the Japanese yen in 2009; the offer of the US dollar against the Japanese yen stood at the peak of 100.71 yen per US dollar on April 7 and reached the bottom of 86.12 yen per US dollar on November 30 (Figure 5).



International bond markets

Treasury bond yield in major economies gradually

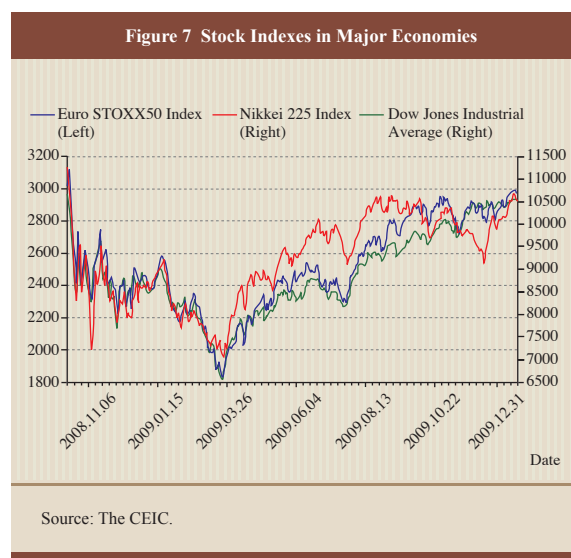
declined after surging up. Along with the interest rate cuts by big margins in the U.S. at the end of 2008, a worldwide wave of interest rate cuts caused the bond yield dropping to a lower level accordingly. In the first half of 2009, as investors' fear for the global financial crisis eased and the judgment that the global economic downturn might have bottomed out was gradually recognized, the demand for long-term government bonds fell significantly which led to rebounding trends in long-term government bond yields. At the same time, concerns that the implementation of large-scale economic stimulus package introduced by western countries would lead to a rapid increase in fiscal deficit exerted some upward pressure on long-term government bond yields. In the second half of the year, the yields of major treasury bonds gradually declined due to the market expectation that inflation would remain low and that major central banks were unlikely to raise interest rates in the short term. At the end of the year, 10-year bond yields in the U.S., Euro area and Japan closed at 3.85 percent, 3.63 percent and 1.30 percent respectively, 0.13 percentage points, 0.4 percentage points and 0.26 percentage points lower than the peak in 2009 (Figure 6).



International stock markets

The major stock markets rebounded sharply.

Market confidence has been boosted since mid-March in 2009 with the unconventional bailout measures introduced intensively by related governments as well as the international economic and financial situation gradually eased. After the debt crisis erupted in Dubai on November 25, 2009, major stock indexes once tumbled but then quickly recovered and rebounded. At the end of the year, Dow Jones Industrial Average, Nasdaq Index, Euro STOXX50 index and Nikkei 225 Index closed at 10 428.05 points, 2 269.15 points, 2 966.24 points and 10 546.44 points respectively, up 15.4 percent, 39 percent, 16.9 percent and 16.6 percent from the beginning of the year (Figure 7).

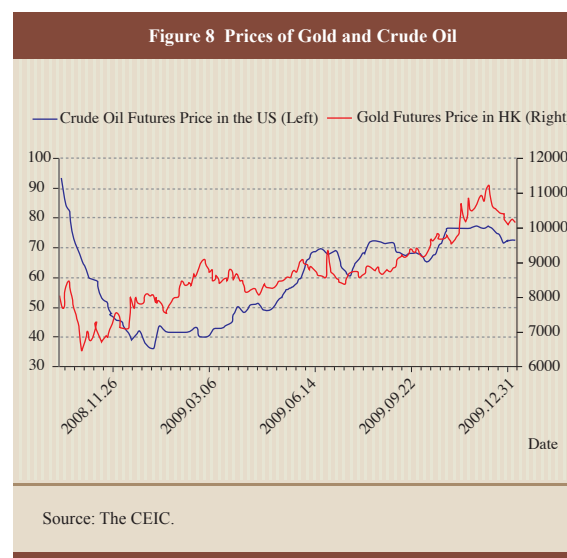


International commodity markets

Crude oil prices continued to rise and returned to the high level at the end of 2009. Crude oil prices hit a record high in mid-2008 and quickly slumped to their lowest after the outbreak of the crisis. The spot price for OPEC crude oil was US\$35 per barrel in early January 2009, and became upward in fluctuated upward since February. The main reasons are as follows. Firstly, the investors believed that the worst time of the crisis was over and the demand for oil must increase in the end with increasingly significant signs of economic recovery. Secondly, the

trend of US dollar depreciation in mid and late 2009 led to an upsurge in demand for financial investment in commodity futures such as crude oil. As a result, the spot price for OPEC crude oil rose to US\$77 per barrel at the end of November.

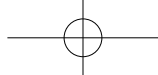
The increasing time of gold prices was overall longer than the decreasing time with the gold prices frequently reaching all-time highs. London Gold Fixing price hit US\$1 000 per ounce on September 8 and rose to US\$1 128 per ounce on December 3, the highest point in 2009. The main reasons that gold prices climbed higher and higher lied in that the property of gold as financial assets has been markedly enhanced, e.g. gold



has not only the natural function of maintaining value but also the function of counteracting inflation. Furthermore, gold price movements have a strong negative correlation with changes in the US dollar exchange rates since gold is priced in the US dollar (Figure 8).

Global Economic Prospects for 2010

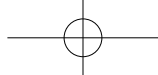
In 2010, as the unconventional economic stimulus policies will be gradually withdrawn in related countries, the intensity of policies to promote economic rebound will tend to weaken. Meanwhile, the function



of the financial sector has not fully recovered and the consumption and investment will grow slowly. Therefore, the global economic growth is expected to remain below the pre-crisis level. According to the IMF's projection, the growth rate of global GDP in 2010 will be 4.2 percent, 1 percentage point lower than the pre-crisis year of 2007.

The developed economies will slowly recover with the unemployment rate remaining high in 2010, while the emerging economies will recover rapidly in 2010. Although the main economic indicators show that the global economy has passed the most difficult period, but the prospects of economic recovery are still full of uncertainty. The potential risks facing

the global economy include: the dilemma in which whether or not the economic stimulus policies should be withdrawn will increase the uncertainty of recovery; the major economies will still face a fairly high rate of unemployment; financial system remains weak; the risks of sovereign debt increase; some countries and regions will have the problem of debt payment; short-term international capital flows will make it more difficult for the emerging economies to conduct macroeconomic management; the fluctuation of exchange rates of major currencies including the US dollar and the euro will affect economic recovery; trade protectionism has notably increased.



MONETARY POLICY

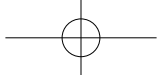
In 2009, the Chinese economy stood the challenge of the severe international financial crisis. The PBC conscientiously implemented an appropriately accommodative monetary policy to ensure ample liquidity in the banking system, guided financial institutions to expand their credit inputs and optimize credit structure, and enhanced the financial support to economic development. At the same time, the PBC also attached great importance to the stable and sustainable credit growth and the prevention of financial risks. In principle, the appropriately accommodative monetary policy has been effectively transmitted and has played a vital role in expanding aggregate demand, boosting economy and restraining the deflation expectation at the beginning of the year. In the next stage, the PBC will properly balance relations among supporting sound and rapid economic growth, adjusting economic structure and managing inflation expectations; continue to implement an appropriately accommodative monetary policy with well-handled intensity, pace and focus; maintain the consistency and stability of the monetary policy while also improve its targeting and flexibility according to the changing situation; enhance the sustainability of financial support to economy and safeguard the healthy and smooth functioning of the financial system.

Monetary Policy Measures in 2009

To counter the large shocks caused by the international financial crisis in 2009, the PBC, under the leadership of the CPC Central Committee and the State Council, conscientiously implemented the appropriately accommodative monetary policy to ensure ample liquidity in the banking system, guided financial institutions to expand their credit input and optimize credit structure and enhanced the financial support to economic development. In principle, the appropriately accommodative monetary policy has been effectively transmitted and has played an important role in expanding aggregate demand, boosting economy and restraining the deflation expectation at the beginning of the year. Meanwhile, the PBC also attached great importance to the stable and sustainable growth of credit and the prevention of financial risks, making preemptive and flexible adjustments to the intensity, pace and focus of monetary policy. The efforts were reflected in the obvious credit growth in the third and the forth quarters, which contributed to preventing and mitigating the potential risks for long-term economic growth.

Flexibly conducting open market operations

The PBC closely followed the new trends and latest developments in economy and the financial market, further improved the forecast and analysis of the liquidity supply/demand in the banking system, and flexibly utilized open market operations to ensure a reasonable and appropriate level of banking liquidity and stable money market rates. First, in line with the changes of the liquidity conditions at different periods of the year, the pace and strengths of the open market operations were reasonably adjusted with properly and flexibly upgraded liquidity management. In the whole year of 2009, a total of 4 trillion yuan of central bank bills were issued and the amount of repo operations reached 4.2 trillion yuan. And the outstanding balance of central bank bills registered 4.2 trillion yuan at end-2009. Second, the mix of the instruments of open market operations was scientifically designed. Considering the economic and financial developments at home and abroad and based on the dynamics of liquidity supply and demand in the banking system, the PBC mainly adopted short-term operations



with less than three months' maturity in the first half of the year, while resumed the issuance of the one-year central bank bills at the beginning of July to reasonably extend the sterilization period. At the same time, the maturity structure of the short-term repo operations with less than three months' maturity were flexibly adjusted to form a supplement to that of the central bank bills, further improving the targeting and flexibility of liquidity management. Third, the flexibility of interest rate operations was appropriately enhanced. The basically stable open market operation rates in the first half of the year were increased slightly in a timely manner during the latter half of the year when the economic recovery further firmed and market interest rates fluctuated upward with the resumption of IPOs, which not only facilitated the proper rebound of the money market interest rates, but also played a role in adjusting the demand and supply of funds. At the end of the year, the interest rates of 28-day repo and 3-month central bank bills were stabilized at 1.18 percent and 1.3280 percent respectively, up by 28 and 36 basis points from the beginning of the year. The issuing rate of one-year central bank bills stood steadily at 1.7605 percent, up by 26 basis points since the resumption of its issuance. Fourth, time deposit business with commercial banks for state treasury funds management was carried out in a timely manner. In order to strengthen the coordination with the proactive fiscal policy, the frequency and size of time deposit business with commercial banks were gradually increased, and a variety of terms and maturities were offered. Throughout the year 2009, such operations were conducted on 11 occasions, with a total volume of 310 billion yuan, and the outstanding balance reached 120 billion yuan at year-end.

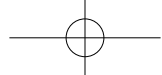
Guiding financial institutions to pace credit extension and optimize credit structure

Coordination of credit policy with fiscal and industrial policies was strengthened. Measures were taken to guide financial institutions to increase input of matched lending

to projects with central government investment and to provide financial services to programs including household electrical appliances to the countryside and automobiles to the countryside. The credit policy that differentiated treatment for different sectors was implemented to support priority sectors or weak links of economy such as agriculture, rural areas and farmers, SMEs, western development, energy-conservation and emission-reduction, employment, student loans and post-disaster reconstruction, while unbridled credit extension to high-energy consuming, heavily polluting industries and industries with excess capacity was strictly controlled. The rediscount management was improved to give priority to discount agriculture-related commercial paper or commercial paper issued, honored or held by county enterprises and small and medium financial institutions, which played an active role in expanding agriculture loans and the financing of SMEs. At the same time, the PBC was also alert to the potential systemic financial risks associated with the local financing platform. Commercial banks were urged to properly handle the pace of credit input, the relations between financial support to economic growth and risk prevention, and seriously fulfill the supervision requirements of capital adequacy ratio, loan concentration and minimum capital requirement for fix assets investment, so as to ensure a healthy banking system, overall financial stability and sustainable development.

Benchmark lending and deposit interest rates remained stable

After cutting the RMB benchmark lending and deposit rates on consecutive 5 occasions since September 2008, the PBC kept the interest rates basically unchanged in 2009, with the 1-year deposit rate standing at 2.25 percent and the 1-year lending rate at 5.31 percent. Meanwhile, interest rate liberalization was steadily advanced, including the cultivation of a money market benchmark rate and guiding financial institutions to



improve their interest rate pricing mechanism.

Actively participated in international response to the financial crisis, initiated the pilot program of RMB settlement of cross-border trade transactions

The PBC actively responded to the request of neighboring countries and areas and signed six domestic currency swap agreements totaling 650 billion yuan with the Bank of Korea, Hong Kong Monetary Authority, Bank Negara Malaysia, Bank Indonesia, National Bank of Belarus and Central Bank of Argentina. Based on the comprehensive consideration of international environment and China's own conditions, the PBC actively engaged in the fund raising of the IMF and purchased up to US\$50 billion of IMF notes. Besides, the PBC is also an advocator of regional monetary and financial cooperation such as the multilateralization of the Chiang Mai Initiative (CMIM). On December 24, ASEAN+3 plus Hong Kong signed a CMIM agreement involving US\$120 billion. And for the purpose of stabilizing trade development, the PBC took an active part in IFC's Trade Finance Program and IDB's Trade Finance Facilitation Program. The pilot program of RMB settlement of cross-border trade transactions was launched and went on smoothly, facilitating trade and investment.

Money and Credit Condition

Rapid money and credit supply growth

Money aggregates increased rapidly. By the end of the year, M2 posted 60.6 trillion yuan, an YOY increase of 27.7 percent, and an acceleration of 10.0 percentage points compared with the same period of last year; M1 stood at 22.0 trillion yuan, up by 32.4 percent and a rise of 23.3 percentage points from last year; while M0 reached 3.8 trillion yuan, a rise of 11.8 percent year on year and a deceleration of 0.9 percentage points from last year. Net cash injection of the year was 402.7 billion yuan,

down 7.1 billion yuan YOY. Growing at a comparatively low speed at the beginning of the year, M1 rose only 6.7 percent by the end of January, 12.1 percentage points lower than that of M2 at the same period. From then on, the growth momentum of M1 picked up, exceeded that of M2 after September, and stayed above 30 percent all the way through the fourth quarter, indicating increasingly abundant liquidity in the market. New RMB loans for the year totaled 9.59 trillion yuan, an YOY increase of 4.69 trillion yuan, most of which was extended in the first half of the year, especially in the first quarter, resulting from the needs for crisis response in the beginning of the year and financial institutions' business doctrine of earlier issuance and earlier benefits. In general, money and credit provided substantive support to economic growth in 2009 and the appropriately accommodative monetary policy has been effectively implemented.

Share of project loans increased, consumption loans expanded rapidly and paper financing declined after initial growth

New medium- and long-term loans excluding consumption loans posted 5.15 trillion yuan in 2009, a YOY increase of 2.99 trillion yuan, and a strong support for the 4-trillion yuan investment program. New individual consumption loans registered 1.80 trillion yuan, 3.9 times that of last year. Due to housing consumptions, its growth rate continued to climb to 48.7 percent by the end of December. New paper financing registered 456.3 billion yuan, a decrease of 189.8 billion yuan compared with last year, with a gain of 1.48 trillion yuan and 224.8 billion yuan respectively for the first and the second quarter while a decline of 826.2 billion yuan and 424 billion yuan respectively for the third and fourth quarter.

Enhanced credit support to weak links in economy such as SMEs and agriculture, rural areas and farmers



By the end of December, credit to small enterprises grew by 41.4 percent, up by 34.2 percentage points compared with the same period of last year. The share of new credit to small business in the whole year was 2.5 percentage points higher than that of the first three quarters. And by the end of December, agriculture loans jumped up by 32.3 percent, an increase of 11.5 percentage points year on year. New agriculture loans for the whole year stood at 2.36 trillion yuan, the share of which rose season by season.

The share of demand deposits increased

New deposit for the year was 13.13 trillion yuan, up by 5.44 trillion yuan than last year. New deposit of enterprises registered 5.97 trillion yuan, up by 4.08 trillion yuan compared with last year, showing strengthened payment ability of enterprises. Savings deposit grew in a moderated pace, with new savings deposit standing at 4.29 trillion yuan for the whole year, down 248.5 billion yuan YOY, owing partly to increased household investment and the divergence of savings. And there was a trend for deposit to transfer from time deposit to demand deposit. Demand deposit of enterprises increased by 3.13 trillion yuan compared with the same period of last year, and demand savings deposit edged up by 1.10 trillion yuan YOY. While new fiscal deposit registered 436.8 billion yuan, up by 409.8 billion yuan compared with last year.

Market interest rates were generally lower than last year, but that of the latter half of the year edged up a bit than that in the first half

The yearly average interbank offered rate and repo rate both stood at 1.07 percent, down 1.46 and 1.54 percentage points respectively compared with last year, but the weighed average interbank offered rate and repo rate reached 1.25 percent and 1.26 percent in December, both up by 0.35 percentage points from June. And the yield curve for government securities moved upward in

the latter half of the year.

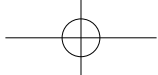
RMB exchange rate remained broadly stable while REER depreciated

The RMB to USD exchange rate closed at 6.8282 yuan per dollar at end-December. The whole year 2009 saw a generally stable exchange rate of RMB against USD. According to the data of the BIS, the real effective exchange rate of RMB depreciated by 6.1 percent from January to December.

Monetary Policy Outlook for 2010

In 2010, in line with the overall arrangements of the State council, the PBC will work to enhance the momentum for an economic improvement and upturn through a combination of market-based mechanism and macroeconomic management and by striking a balance between supporting sound and rapid economic growth, adjusting the economic structure and managing inflation expectations. While continuing the appropriately accommodative monetary policy, properly managing the intensity, pace and focus of policy implementation, and maintaining policy consistency and stability, policies will be better targeted and more flexible in response to new developments so as to enhance the sustainability of financial support to growth and to maintain the healthy and stable performance of the financial system. Broad money M2 is expected to grow by around 17 percent in 2010.

First, the PBC will strengthen liquidity management and guide money and credit aggregates to grow properly. In line with economic and financial developments and changes in foreign exchange flows, the PBC will use a variety of monetary policy tools, carefully arrange the combination and maturity structure of policy tools, and manage the intensity of monetary policy operations. It will work to ensure that liquidity in the banking system remains at a reasonable level and will promote proper



money and credit growth through enhanced liquidity management. It will guide financial institutions to properly pace their loan extensions in line with the needs of economic development so that loans are balanced throughout the year without sharp fluctuations.

Second, the PBC will step up financial support to the growth pattern transfer and the economic structure adjustment. On the one hand, it will continue to implement differentiated credit policies and to improve the credit structure. In this regard, the PBC will enhance credit policies to support weak links in the economy, employment programs, emerging strategic industries, and industrial relocation. It will work to address financing problems facing agriculture and small enterprises and will ensure that loans to key projects are granted in a timely manner. On the other hand, it will rein in lending to highly energy consuming and polluting industries, industries with excess capacity, and newly started projects. Risk warnings to financial institutions will be improved. Drawing on the regulatory reform approaches proposed by the Financial Stability Board (FSB) and other institutions, and taking into consideration China's circumstances, the PBC will build a macro-prudential management framework and leverage on its countercyclical role to maintain the soundness of the financial system and improve the sustainability of financial support to economic development.

Third, the PBC will steadily advance the market-based interest rate reform and improve the formation mechanism of the RMB exchange rate. Continued efforts will be made to improve the pricing mechanism and make interest rates a more effective adjustment tool. The RMB exchange rate formation mechanism will be improved in a self-initiated, controllable, and gradual manner and the RMB exchange rate will be

kept basically stable at an adaptive and equilibrium level. The PBC will promote the development of the foreign exchange market and introduce more tools for managing exchange rate risks. It will deepen the reform of the foreign exchange administration system and steadily advance the pilot program for RMB settlement of cross-border trade transactions to further facilitate trade and investment.

Fourth, the PBC will speed up financial product innovation and promote sound development of the financial market. It will provide more direct financing channels for enterprises, allow a wider range of financial institutions to issue debts and let more foreign institutions get access to the domestic bond market. It will accelerate the development of the bond market and introduce more financial derivatives. The PBC will encourage innovations in debt financing instruments for non-financial enterprises. Drawing on existing debt financing instruments, the PBC will continue to expand the market by encouraging SMEs to issue short-term financing bills and medium-term collective bonds, exploring the possibility of issuing convertible debt financing instruments by SMEs, and studying the issuance of asset-backed bills by enterprises.

Moreover, it will be necessary to strengthen the coordination and cooperation between fiscal and monetary policies to ensure proper investment growth and give fiscal policy a greater role in optimizing the economic structure and improving people's livelihood. It is important to accelerate the economic restructuring and reforms in key areas, enhance the vitality of private businesses, ensure that the market mechanism plays a greater role in resource allocation, enhance the growth potential, and build new endogenous economic drivers by shifting the growth pattern and adjusting the economic structure.



BOX

RMB Settlement of Cross-border Trade Transactions

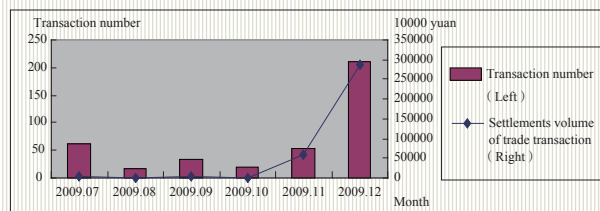
In order to satisfy the need of the market and enterprises both at home and abroad, facilitate trade and investment for enterprises, on April 8, 2009, the State Council decided to launch the pilot program of RMB settlement of cross-border trade transactions in Shanghai, Guangzhou, Zhuhai and Dongguan on the 56th Meeting of the State Council Standing Committee.

On July 1, 2009, the PBC released the *Administrative Rules on Pilot Program of Renminbi Settlement of Cross-border Trade Transactions* jointly with the Ministry of Finance (MOF), the Ministry of Commerce (MOFCOM), the General Administration of Customs (GAC), the State Administration of Taxation (SAT) and CBRC as approved by the State Council. On July 3, the PBC launched *Regulations for Implementing the Administrative Rules on Pilot Program of Renminbi Settlement of Cross-border Trade Transactions*, provisioning the obligations and duties of domestic agent banks and settlement banks, overseas participating banks and pilot enterprises in designated cities when settling cross-border trade transactions in RMB. On July 6, Shanghai started RMB settlement business of cross-border trade transaction at first. The PBC's RMB Collection and Payment Management Information System (RCPMIS), built for compiling, analyzing and monitoring statistics of cross-border RMB receipt and payment, began its on-line operation at the same day. On July 7, the pilot cities all conducted RMB settlement business of cross-border trade transaction.

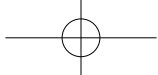
Meanwhile, the PBC established the information-sharing mechanism on pilot RMB settlement of cross-border trade transactions together with the GAC and SAT. On August 30, the PBC began to collect information on export and import declared in RMB to customs from the GAC via RCPMIS. On December 8, the PBC began to send information on cross-border RMB collection and payment to the GAC and the SAT via RCPMIS. Therefore, data and information exchange on RMB settlement of cross-border trade transactions was realized. Initial progress was made in information-sharing work.

With the convenient and smooth procedures for cross-border RMB settlement and clearing, well-defined policies and user-friendly operation process for export tax rebate (exemption) in RMB and for customs declaration of export and import, a stable performed RCPMIS, and an orderly operation of RMB settlement, account financing as well as the purchase and sales of RMB, the pilot program is well under way. At end-2009, relevant banks have settled 409 cross-border trade transactions for enterprises with a total value of 3.58 billion yuan (figure 1) and conducted 59 RMB sales with a total value of 359 million yuan and 16 RMB purchases with a total value of 218 million yuan. Domestic agent

Figure 1 Settlements of Cross-border Trade Transactions



Source: The PBC.

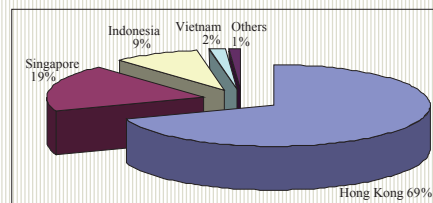


banks and Bank of China Hong Kong have opened 160 and 53 RMB interbank transactions accounts for participating banks overseas respectively, with outstanding value of 690 million yuan and 48.62 billion yuan.

Hong Kong and Singapore are main overseas counterparts that receive RMB settlements. Their cross-border RMB receipt and payment in real term accounted for 88 percent of the total (figure 2).

To compare with foreign exchange settlements, under RMB settlement scheme, enterprises can save exchange expenses and directly avert foreign exchange risks, enterprises were no longer required to submit verification forms for customs declaration, settlement and export tax rebate or send their export revenue to accounts yet to be verified. The streamlined procedures have helped accelerate funds transfer. The pilot program has been generally welcomed by enterprises.

Figure 2 The Settlement Proportion of Overseas Countries (Regions)



Source: The PBC.



FINANCIAL STABILITY

Facing severe impact of the international financial crisis in 2009, the PBC implemented the policies of the CPC Central Committee and the State Council to cope with the international financial crisis and to promote economic development. Efforts were made to study the financial reform and developmental issues, boost financial reform, advance the construction of the deposit insurance system, improve financial risk monitoring, strengthen macro-prudential regulation, prevent systemic financial risks, monitor and analyze crisis developments, participate in the reform of international financial regulation, press ahead with international cooperation on financial stability, strengthen asset management of central banks and establish long-term mechanism to maintain financial stability.

Cope with the financial crisis

In response to developments of the international financial crisis in 2009, the PBC conducted in-depth research on the impact of the international financial crisis and macroeconomic policies at home and abroad on China's financial sector, and analyzed risks facing domestic financial institutions amidst the crisis so as to be well prepared for emergency crisis response. First, the PBC expanded the scope and improved the system of risk monitoring. Efforts were made to improve risk monitoring over local small- and medium-sized financial institutions with legal person status and foreign-related enterprises and conduct special research on business development of commercial banks, prevention of risks and irregularities and loan concentration of small- and medium-sized banks with legal person status. Second, efforts were also made to monitor and evaluate the risks of systemically important financial institutions and instruments, make regulatory rules on financing holding companies and cross-sector financial businesses and research on policy measures on strengthening the regulation of systemically important financial institutions. Third, continued efforts were made to deepen the shareholding reform of large state-owned commercial banks, advance the reform of policy financial institutions and cope with equity holding reduction on the part of foreign strategic investors. Fourth, close attention was paid to the influence of

foreign banks to their branches or subsidiaries operating in China. Work was done in analyzing their liquidity risk and making relevant risk prevention recommendations.

Take an active part in international cooperation on financial stability

In 2009, the PBC strengthened international exchange and cooperation in financial stability and took an active part in international reform of financial regulation. First, the PBC actively participated in making international banking regulatory rules. Since becoming the member of the Basel Committee on Banking Supervision (BCBS) in May, the PBC has been fully engaged in research and rule-making on international banking regulation. Besides attending regular committee sessions, the PBC has also joined the Policy Development Group (PDG), Macro Variants Task Force (MVTf) and Macro-prudential Group (MPG) and expressed China's views on setting international banking regulatory rules. Second, the PBC actively participated in the work of the FSB. Since the entry into the FSB in June, the PBC has joined in the FSB Plenum, Steering Committee and Standing Committee of Standard Implementation (SCSI). The PBC also participated in the peer review initiated by the SCSI, identified non-cooperative countries (or regions) and monitored the implementation of G20 and the FSB recommendations. Third, the PBC initiated the FSAP in



China in August. Since then, the PBC has made concerted efforts with 11 competent authorities concerned to advance the work. An inter-agency leading group and a dedicated working group on the FSAP have been set up to organize the discussion with the IMF/World Bank FSAP scoping mission. *China Financial Sector Assessment Program Memorandum on the Scope of Work* was signed after discussions with IMF/World Bank FSAP scoping mission. FSAP work was boosted. Fourth, the PBC took an active part in regional, bilateral and multilateral international cooperation on financial stability. It also participated in activities organized by the EMEAP Banking Supervision Working Group to boost bilateral and multilateral exchange in financial regulation and financial stability with the US, Europe, the UK, Korea and Japan.

Improve financial risk monitoring and assessment

First, the PBC published *China Financial Stability Report for 2009* and *China's Regional Financial Stability Report for 2009*. The assessment on the stability of China's financial system was comprehensive, and strenuous efforts were made to improve the methodology of monitoring and evaluation and increase the content of quantitative assessment. Second, efforts were made to closely monitor the banking, securities and insurance industries and monitor and analyze guarantee companies, pawnshops and micro credit companies. Third, with consideration of the characteristics of current economic operation and financing activities, the PBC paid more attention to financial risk monitoring and analysis. Focused efforts were made to strengthen investigation, monitoring and analysis of loan data of high-risk enterprises and banks. Evaluations on the overall risk of the real economy were conducted in a timely manner to prevent risk contagion from the real economy to the financial sector. Fourth, the PBC worked hard to build a mechanism for the monitoring and assessment of regional

financial risks. The PBCSHO is responsible for regional financial stability evaluation and monitoring. According to the realities of economic and financial development in various regions in China, the PBC put all localities into four geographical categories, namely the Eastern Region, the Middle Region, the Western Region and the North Eastern Region. Work was done to improve risk monitoring, diversify means of evaluation and particularly try hard to set up a framework for the assessment of regional financial stability. The PBC branch offices explored methodologies most fit for local realities in the monitoring and evaluation of financial risks and they focused on small- and medium-sized financial institutions, in their jurisdiction.

Strengthen macro-prudential regulation

The PBC kept a close eye on the latest developments of the reform of the international financial regulatory system. Efforts were made to have in place a tailor made macro prudential regulatory framework based on China's realities and leveraging on international experiences. In 2009, the PBC incorporated macro prudential regulation into China's policy toolkit of macroeconomic management and financial stability in order to prevent systemic risks. The PBC innovated policy instruments, promoted financial reform, strengthened the monitoring and evaluation of systemic risks, pushed forward the establishment of the financial safety net and improved the financial infrastructure. These measures helped to reinforce the sustainability of financial system development and strike a balance between adjusting the monetary aggregates and preventing financial risks. Meanwhile, further efforts were made to study macro prudential regulation. The possibilities of putting in place regulatory instruments such as a counter-cyclical buffer, dynamic provisioning and capital surcharge have been explored to promote sound performance of financial institutions.



Steadily establish the coordination mechanism of financial regulation

Beginning from the year 2009, the State Council has continued to convene meetings every ten days which were participated by the PBC and the CBRC, CIRC and CSRC as well as the SAFE to study important and cross-agency issues in the financial sector. Since the establishment of the “Crisis Response Working Group of the State Council” in October 2008, the PBC, the three regulatory commissions, the Ministry of Finance and the SAFE have made concerted efforts in making crisis-response measures under the leadership of the State Council. Following the results of the regular meetings and in accordance with the requirements of the working group, the PBC strengthened coordination with competent authorities involved in making and implementing monetary policies, maintaining financial stability and optimizing financial services. Positive results were yielded due to such arduous efforts. Meanwhile, fulfilling its duty of “setting up coordinated financial regulatory mechanism with the CBRC, CSRC and CIRC under the leadership of the State Council”, the PBC improved such coordination mechanism. The PBC branch offices took the initiative in setting up all kinds of inter-agency meeting mechanism and information sharing system among all relevant regulators, defined the organizational form, regular meeting mechanism, responsibilities, principles, contents, frequency and means of information sharing for the coordination of financial stability. Besides, together with local authorities concerned the PBC took collective actions in monitoring and assessing risks of local financial sector, formulate rules to maintain local financial order and make policy recommendations for financial security.

Press ahead the construction of the deposit insurance system

After the outbreak of the financial crisis, various countries and regions launched measures to reinforce their deposit insurance systems. Leveraging on international experiences and China’s realities, the PBC conducted in-depth study and argumentation on relevant issues pertaining to the construction of deposit insurance system in China collectively with other relevant authorities. The PBC organized another round of nationwide survey on the structure of depositors’ accounts at deposit-taking financial institutions, thus being well informed of the total value and the structure of the funds in such accounts. Efforts were made to organize symposiums to solicit experts’ insight on the design of deposit insurance system. Given influences exerted on the financial institutions in rural areas due to the launch of the system, on-site studies were conducted with ten sampling cities in the eastern, middle and western regions of China.

Strengthen central bank asset management

The PBC further consolidated the management of central bank lending for financial stability and maintained the security of the central bank’s assets. Efforts were made to further standardize the asset disposal process and the declaration and registration of central bank credit. A mix of effective measures were taken to reinforce asset disposal and reduce the loss in central bank lending. Strenuous efforts were made to monitor and examine the use of central bank lending for financial stability to prevent irregularities. The PBC cooperated with the Ministry of Finance in adjusting relevant policies on the management of earmarked loans extended by local governments to ensure loan repayment, and continued to help relevant authorities concerned in policy-based bankruptcy of SOEs and policy-directed conversion from debts to equities.



BOX

China Initiates "Financial Sector Assessment Program (FSAP)"

Based on the lessons drawn from the Asian financial crisis, the FSAP was developed by the International Monetary Fund (IMF) and the World Bank (WB) jointly in May 1999 to help strengthen assessment and monitoring on financial vulnerability of the IMF's member countries (regions), so as to reduce the possibility of financial crisis and promote financial reforms and development in member countries (regions). The FSAP analytic framework is centered on macro-prudential surveillance and is complemented by surveillance of financial markets, analysis of macro-financial linkages and surveillance of macroeconomic conditions. The FSAP contents involve assessment of financial structure and financial development, financial sectors, financial supervision and infrastructures. The main methods include analysis of financial soundness indicators, stress testing, assessment of observance of international standards and codes. After several years of development and improvement, the FSAP has become an internationally accepted framework for assessing financial stability. As of the end of 2009, 125 countries (regions) completed their first FSAPs. In February 2008, Premier Wen Jiabao declared China's participation in the FSAP. During the two G20 Summits in November 2008 and April 2009, Chairman Hu Jintao, on behalf of China, committed to undertake the FSAP. According to consultations with the IMF and the World Bank, China initiated the FSAP in August 2009.

Formal initiation To better prepare for undertaking the FSAP, the PBC has been communicating adequately with other related agencies. In August 2009, the PBC, together with other 11 agencies including the Ministry of Foreign Affairs, discussed initiation of the FSAP. All participants agreed unanimously that initiating the FSAP in the current situation embodies the fulfillment of Chinese leader's solemn commitment. Meanwhile, initiating China's FSAP is helpful for China to review financial system stability from the viewpoint of international experience and lessons, and promote steady and healthy development of the financial sector in the long term. Whereafter, as the FSAP Inter-agency Leading Group and Inter-agency Working Group were established, the FSAP working mechanism started to work.

Working progress In September 2009, IMF/WB FSAP scoping mission came to China to discuss China's FSAP scope. After full communications and discussions, both sides came to an agreement on the scope and procedures of China's FSAP, and hereby the *China Financial Sector Assessment Program Memorandum on the Scope of Work* (referred as MOU below) was signed as the guideline of China's FSAP. The MOU specifies that China's FSAP covers the following areas: macro-financial risks and financial system vulnerability analysis; financial regulatory and supervisory conditions; systemic liquidity framework and financial stability; financial market infrastructure including law, accounting, disclosure etc.; financial development issues and access to finance; contingency planning and crisis resolution arrangements.

According to the MOU, IMF/WB FSAP team would visit China to carry out spot assessment in June and November 2010 respectively, and all the FSAP process would be concluded in July 2011. Now all FSAP tasks are being pushed forward actively by relevant agencies as scheduled.



FINANCIAL REFORM

In 2009, the shareholding large state-owned commercial banks further deepened their reform. A breakthrough was made in the reform of the ABC and good progress was made in the commercialized reform of China Development Bank. The reform of policy financial institutions was pressed ahead. The reform of large state-owned commercial banks witnessed smooth progress and positive results. They implemented the state macroeconomic policies, thus making a contribution to China's economic recovery, the mitigation of the impact brought by this crisis, and China's domestic financial stability.

The Financial Reform Went on Well in 2009

The reform of the shareholding state-owned commercial banks in China was upheld and deepened

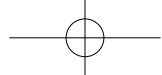
In the principle of promoting reform and improving management at the same time, the shareholding commercial banks in China continued to deepen reform, consolidating micro foundation of the financial system. The four listed state-owned commercial banks, namely the ICBC, BOC, CCB and Bank of communications, further standardized governance structure, improved internal control, management and risk prevention, trained personnel, fostered corporate culture, and strengthened the capability of serving national economy and social development. Thanks to such efforts, they have developed a risk awareness culture, enhanced core competitiveness, fundamentally improved financial status, steadily strengthened operation capability and realized sustainable development. As of end-2009, the capital adequacy ratios of the ICBC, BOC, CCB and Bank of Communications stood at 12.36 percent, 11.14 percent, 11.70 percent and 12.00 percent respectively. Their NPL ratios registered 1.54 percent, 1.52 percent, 1.50 percent and 1.36 percent and their pre-tax profits amounted to 167.248 billion yuan, 111.097 billion yuan, 138.725 billion yuan and 38.240 billion yuan respectively.

The shareholding reform of the Agricultural Bank of China was steadily advanced

Since the inauguration of Agricultural Bank of China Limited (ABC) on January 16th, 2009, the ABC has operated smoothly under its corporate governance framework, improved risk control, pressed ahead with internal reform and shifted relevant working mechanisms, and all business lines have seen stable and rapid development. the ABC made active efforts to provide financial services for agriculture, farmers and rural areas based on market-based operations. They focused efforts on service innovation and implementing the multi-divisional reform and extended a larger amount of agro-linked loans to improve and strengthen financial services provided to rural areas. The pilot multi-divisional reform on providing financial services to agriculture, farmers and rural areas achieved preliminary results in Fujian Province, Zhejiang Province, Shandong Province, Guangxi Province, Chongqing Municipality, Sichuan Province and Gansu Province.

The reform of the China Development Bank was further deepened

The China Development Bank Corporation (CDB) was officially established on December 16, 2008. Since its establishment, the CDB has steadily advanced risk management and internal control and improved the operation system. The CDB has increased the extension of medium and long term credit to support the initiative of "maintaining growth, expanding domestic demand and restructuring the economy", and meanwhile, it has



actively supported the implementation of the state's energy and resource strategies and the "going global" policy. At end-August 2009, China Development Finance Co. Ltd. was officially inaugurated, enabling the CDB to be engaged in equity investment apart from its traditional businesses.

Reform of policy financial institutions made headway

In light of the principles settled on the ad hoc financial meeting convened by the State Council, a working group on the reform of the Export-Import Bank of China and China Export Credit Insurance Company (referred to as the working group hereinafter) was set up, which was organized by the PBC and participated by other authorities concerned. In accordance with the arrangements made on the National Financial Working Conference in 2007 and the package of plans in response to the international financial crisis formulated by the CPC Central Committee and the State Council, the working group proposed a working plan outlining the guiding principles, major tasks, priorities and schedule of the reform of the Export-Import Bank of China and China Export Credit Insurance Co. (referred to as the two institutions hereinafter). With the revision of their articles of association as the major task, the working group focused discussions and studies on their functional positioning, scope of business, state injection of capital, corporate governance, internal reform, amendment of articles of association, external supervision, coordination mechanisms, and measures to support its reform. Different forms of workshops were hosted to solicit opinions from different sectors involved. In terms of institutional arrangements, the working group studied successful cases of the US, Japan, Korea, India and etc. so that the system would be in line with internationally acknowledged practices and agreements. Drafting of the overall reform plan and the revision of their *Articles of Association* were underway. Currently, the State Council

approved the general principles for the reform of the two institutions in principle. The China Agricultural Development Bank also pressed ahead with its internal reform by strengthening risk management and internal control mechanisms and developing new business lines in order to pave the way for a comprehensive reform in the future.

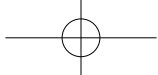
The share reduction of foreign strategic investors was appropriately handled

Since the end of 2008, foreign strategic investors of some key financial institutions in China have run into financial distress as a consequence of the international financial crisis, and started to reduce their share holdings in Chinese-funded financial institutions after the lock-up period, drawing close attention from the market. According to the overall arrangements of the State Council, the PBC cooperated with other relevant authorities to make response plans for core financial institutions, implemented such plans and eased worries of the market in a timely and reasonable manner, and thus safeguarding the stability of the financial market during the share reduction of strategic investors.

Outlook for Financial Reform in 2010

Continue to deepen the reform of large state-owned commercial banks

Efforts will be made to consolidate and deepen the reform of shareholding state-owned commercial banks by improving corporate governance and improving the capability and efficiency of decision-making. Such banks should strengthen internal control and risk prevention based on the upgraded operation mechanism to avert any increase in non-performing assets or profit declines. An accountability system will be in place to effectively shield off risks of various kinds and ensure sound performance.



Press ahead with the reform of the ABC

Efforts will be made to promote the ABC to fully implement the shareholding reform plan as approved by the State Council by capitalizing on the experiences of other large state-owned commercial banks, improving corporate governance, shifting operation mechanism and reinforcing internal control and risk management system so as to accelerate the implementation of various reform measures and meet the goals of the reform. The experiences of “Division of Providing Financial Services to Agriculture, Farmers and Rural Areas” will be summarized to advance the reform of management system, have in place necessary institutional and organizational arrangements to improve the pilot reform and improve financial services provided to rural areas in a comprehensive manner. Going forward, the introduction of strategic investors and IPO will be handled properly to heighten its competitiveness.

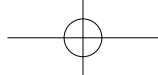
Further promote the reform of the China Development Bank

The CDB will further improve corporate governance system, define the responsibilities of the shareholders’ meeting, board of directors, board of supervisors and

senior management, establish incentive and checking mechanisms for directors, supervisors and senior management and enable the board of directors and its committees, the board of supervisors to play a more effective role. Efforts will be made to push forward the commercialized transformation of the CDB by setting up an operation model and mechanism of a commercial bank, strengthening risk control and improving organizational structure.

Push forward the reform of policy financial institutions

A case-specific approach will be adopted for the reform of the Export-Import Bank of China and China Export Credit Insurance Company. Measures will be taken to further define their position in the market and scope of business, improve corporate structure, innovate the model of management, strengthen risk control, establish risk compensation system, facilitate effective surveillance by compliance and regulatory departments and improve their performance in providing services to foreign trade and helping enterprises to go overseas. As for the Agricultural Development Bank of China, adequate studies and preparations will be made to deepen its internal transformation and pave the way for a comprehensive reform.



FINANCIAL MARKET

In 2009, China's financial market performed in a stable manner. In particular, the rapid development of the bond market played an active role in ensuring the implementation of macroeconomic policies, deepening reform of the financial system, and strengthening financial support to economic development. The interbank bond market continued its healthy development with bond issuance expanding rapidly. Transactions on the interbank bond market were brisk with the turnover growing remarkably over the previous year. Interest rates on the money market moved at a lower level with the yield curve displaying an overall upward trend and types of institutional investors further diversified. Stock market indices generally moved up with the turnover increasing rapidly. The foreign exchange market functioned in a stable manner. The gold market operated in a stable yet upward way.

Interbank Borrowing Market Performance

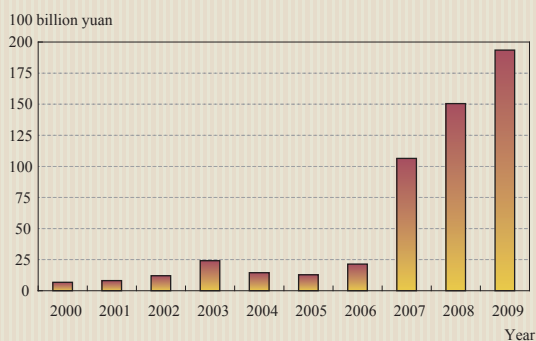
Market transaction

In 2009, trading volume on the interbank borrowing market rose remarkably with the turnover for the whole year amounting to 19.35 trillion yuan, an increase of 28.58 percent over the previous year (Figure 9). Transactions mainly focused on overnight and 7-day products, and the turnover of overnight and 7-day products accounted for 94.63 percent of the total trading volume, of which the turnover of overnight products

registered 16.17 trillion yuan, accounting for 83.57 percent, and the turnover of 7-day products registered 2.14 trillion yuan, accounting for 11.06 percent.

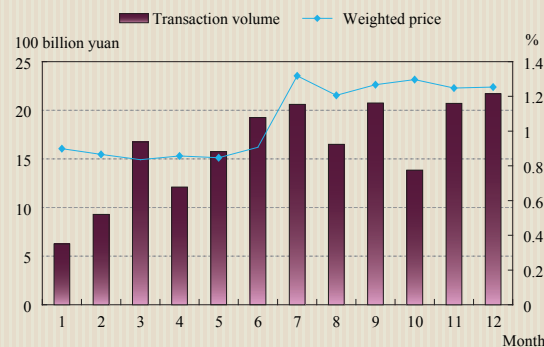
In terms of the direction of funds flow in the marketplace, the net lending volume of state-owned commercial banks was 1.75 trillion yuan on a cumulative basis. The net borrowing volume of other commercial banks, other financial institutions, securities firms, and foreign-funded financial institutions were 436.7 billion yuan, 529.1 billion yuan, 173.9 billion yuan and 614.2 billion yuan respectively.

Figure 9 Transaction Volume on the Interbank Borrowing Market, 2000–2009



Source: National Interbank Funding Center.

Figure 10 Transaction Volume and Weighted Price on the Interbank Borrowing Market in 2009



Source: National Interbank Funding Center.



Market interest rate

The interest rate movement of the interbank borrowing market could be divided into two stages: in the first half of the year, due to relatively abundant liquidity in the market, the monthly weighted average interest rate moved below 1 percent; at end-June, due to heightened expectation for economic recovery and inflation as well as re-launching of the IPO market, the interest rate on the interbank borrowing market rose substantially and reached the yearly high of 1.32 percent, up 41 basis points from the beginning of June, and 49 basis points higher than the yearly trough of 0.83 percent. In the second half of the year, the interest rate on the interbank funding market remained stably at the high level. The weighted average interest rate in December was 1.25 percent, up 35 basis points from the year beginning (Figure 10).

Bond Market Performance

Bond issuance

The rapid development of the bond market contributed greatly to the implementation of macroeconomic policies, promoted the reform of the financial system, and put the role of the financial sector into full play in supporting economic development. In 2009, the issuance of RMB bonds on the interbank bond market amounted to 4.9 trillion yuan, representing a growth of 68.5 percent year on year, of which, the issuance of treasury bonds, subordinated bonds, medium-term notes and enterprise bonds rose considerably from the previous year. As of end-2009, bond in custody on the bond market posted 13.3 trillion yuan^①, of which, bond in custody on the interbank market posted 13 trillion yuan^②, an increase of 30 percent year on year.

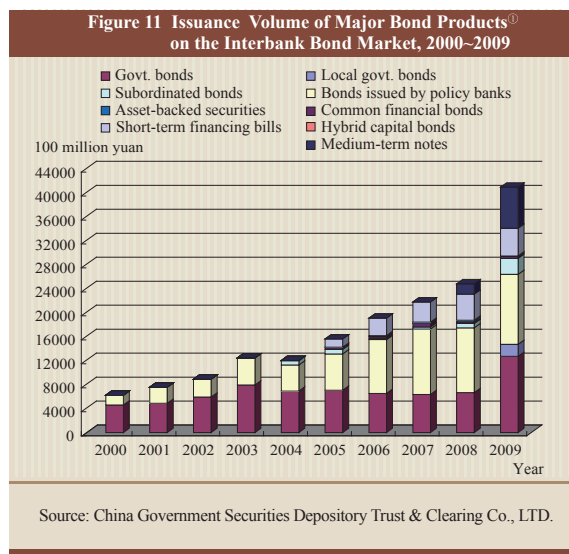
Bond issuers on the interbank bond market included various market participants such as the Ministry of

Finance, the Ministry of Railways, policy banks, commercial banks, non-bank financial institutions, international development organizations and non-financial enterprises. Bond products were more diversified both in variety and credit layer. In 2009, the Ministry of Finance issued a total of 1.5 trillion yuan of government bonds (including 200 billion yuan of municipal bonds issued on behalf of local governments) on the interbank bond market. The China Development Bank, the Export-Import Bank of China and the Agricultural Development Bank of China issued a total of 1.2 trillion yuan of bonds on the interbank bond market. 23 commercial banks issued a total of 266.9 billion yuan of subordinated bonds, 3.7 times the previous year. Two commercial banks issued a total of 6.5 billion yuan of hybrid capital bonds. The issuance of common financial bonds increased steadily and the funding channels of financial institutions were further broadened. 10 financial institutions including commercial banks and financial companies of large enterprise groups issued a total of 33.7 billion yuan of common financial bonds, an increase of 34.8 percent from the previous year. The Asian Development Bank once again issued 1 billion yuan of RMB bonds, and RMB bonds issued by international development organizations totaled 4 billion yuan on a cumulative basis. The market for debt financing instruments for non-financial enterprises developed rapidly. In 2009, 263 short-term financing bills were issued by non-financial enterprises on the interbank bond market with a total face value of 461.21 billion yuan; 172 medium-term notes were issued by non-financial enterprises on the interbank bond market with a total face value of 688.5 billion yuan. In addition, to support the development of small- and medium-sized enterprises, efforts were made to launch the collective bill scheme for small- and medium-sized non-financial enterprises (SMEs), and 1.265 billion yuan of such bills was successfully issued. In 2009, enterprises raised about 500 billion yuan via issuance of enterprise bonds and

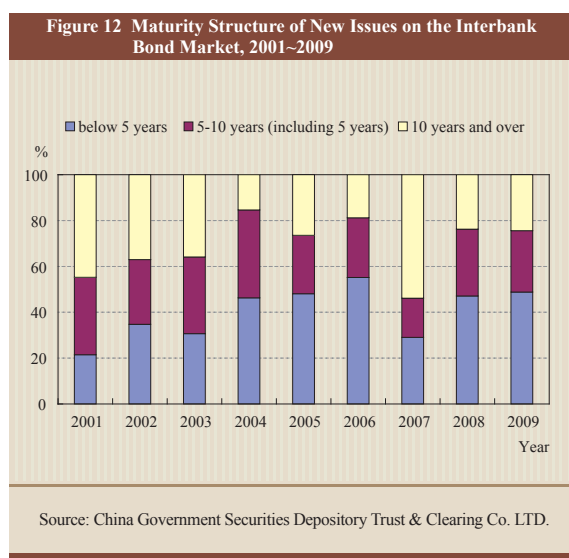
①The issuance only referred to RMB bonds publicly issued on the interbank bond market (excluding central bank bills).

②The bond in custody did not include central bank bills in custody.

corporate bonds (Figure 11).



The maturity structure of bond issuance on the interbank bond market did not change much from the previous year, and short- and medium-term bonds still accounted for a lion's share. In particular, bonds with maturity of less than 5 years accounted for 48.8 percent, up 1.6 percentage points from the previous year; bonds with maturity of 5-10 years (including 5 years) accounted for 26.8 percent, down 2.3 percentage points; bonds with maturity of more than 10 years (including 10 years) accounted for 24.4 percent, up 0.7 percentage points from



the previous year (Figure 12).

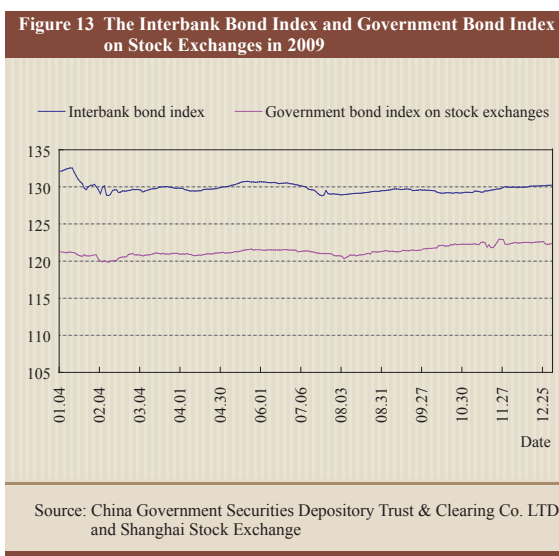
Trading on the market

In general, market liquidity was abundant in 2009. The movement of bond prices was relatively stable and the interbank bond index fluctuated within a narrow range. The interbank market bond index declined 1.4 percent, or 1.88 points, to 130.23 points at end-2009, from 132.11 points at the year beginning. Government bond index on the stock exchange edged up 0.9 percent, or 1.13 points, to 122.35 points at end-2009, from 121.22 points at the year beginning (Figure 13).

The interbank bond market traded briskly with the turnover increasing rapidly. In 2009, the turnover on the interbank market amounted to 117.6 trillion yuan, up 23.5 percent from a year earlier. In particular, the turnover of outright bond purchase amounted to 47.3 trillion yuan, up 27.5 percent from a year earlier. The turnover of pledged bond repo amounted to 67.7 trillion yuan, up 20 percent from a year earlier; the turnover of buyout bond repo amounted to 2.6 trillion yuan, up 52.9 percent.

Market interest rate

The interest rate on the money market operated



^①Excluding the issuance of special government bonds in 2007.

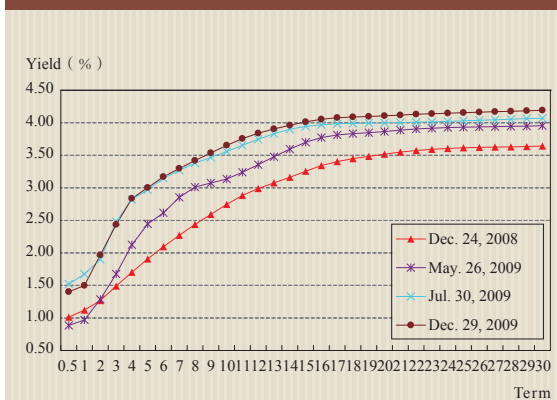


at a relatively low level, and its movement could be divided mainly into two stages: the first stage was from the year beginning to June, when the market interest rate fluctuated between the narrow band of 0.9 percent and 1.2 percent. The second stage started from July and closed in the year end, which witnessed the phased wider movement of market interest rate. Especially after the resumption of IPO, the stock market showed its impacts on the money market again. Large amount of liquidity funds frozen due to IPO subscription heightened the fluctuation of money market interest rates. For example, the weighted average interest rate of 7-day interbank borrowing peaked 2.12 percent in mid and late July and hit the bottom of 1.29 percent, a gap of 80 basis points. In December, the weighted average interbank lending rate registered 1.25 percent, up 35 basis points from January, and the average weighted rate of pledged bond repo registered 1.26 percent, up 36 basis points from January (Figure 14).

The yield curve of government bonds on the interbank market shifted upward in an overall manner, and its movement could be divided into three phases: the first stage was from January to June, and the yield curve showed a steepening trend, with the short end moving downward while the medium and long end moving upward. The second stage was from July to August, and

the yield curve shifted upward and showed a flattening trend. The third stage was from September to the year end, and the yield curve once again showed a steepening trend, with the short end moving downward and the medium and long end moving upward (Figure 15).

Figure 15 Government Bond Yield Curve on the Interbank Market in 2009

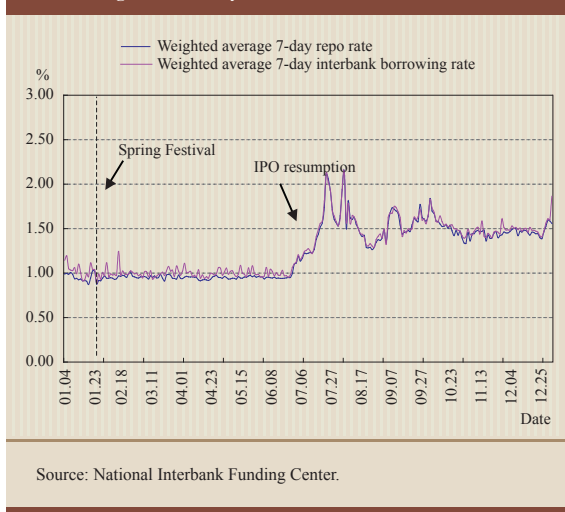


Source: China Government Securities Depository Trust & Clearing Co., LTD.

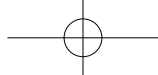
Investors on the interbank bond market

As end-2009, there were a total of 9247 participants in the interbank bond market, including all sorts of financial institutions and non-financial institutional investors. A multi-layer market, constituted by market makers, financial institutions and other institutional investors, has taken shape. The types of participants in the interbank bond market further diversified with the number of collective investors and non-financial enterprises increasing rapidly. Among the new investors, there were 536 fund management companies, 309 enterprises, 50 banks, 42 credit cooperatives, 10 nonbank financial institutions, 6 securities firms, and 3 insurance companies. The specific asset portfolios of fund management companies and asset management plans of securities firms were allowed to open account on the interbank bond market, and institutional investors without legal person status included enterprise annuities, products of insurance companies, trust products, specific portfolios

Figure 14 Money Market Interest Rates in 2009



Source: National Interbank Funding Center.



of fund management companies and asset management plans of securities firms.

Financing situation

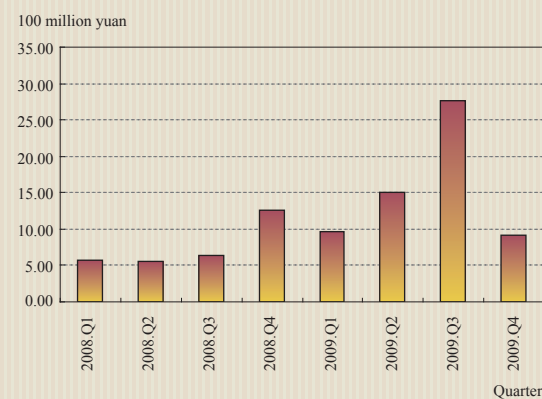
The direction of fund flows was broadly stable. Large commercial banks, joint-stock commercial banks, city commercial banks, fund management companies, associations of rural credit cooperatives, foreign-funded financial institutions, other financial institutions^① and insurance companies actively participated in trading on the interbank market. The funding structure had three main characteristics: First, the direction of funds flow was basically stable. Large commercial banks and joint-stock commercial banks remained net lenders and large commercial banks replaced the joint-stock commercial banks as the largest net lender with abundant funds raised on the bond market, policy banks, they continued to be net lenders. City commercial banks and associations of rural credit cooperatives were still net borrowers. Second, large commercial banks had abundant funds and became the main net lenders. For the full year, large commercial banks let out a total of 1.8 trillion yuan on a net basis as the largest net lender. Third, securities firms participated more actively in the money market. In recent years, securities firms held more bonds and raised funds on the bond repo market. This is becoming an important funding channel for securities firms.

OTC transactions

The OTC transactions of commercial banks proceeded stably. Eight eligible commercial banks conducted the pilot OTC transactions of government bonds. Since 2008, government bonds of major maturities were introduced into OTC trading products. At end-2009, the government bonds traded on the OTC market included 1-year, 3-year, 7-year, 10-year and 15-year products, with 64 government bond products being traded on the OTC market. The turnover of government bond transactions on

the OTC market increased substantially from the previous year to 6.16 billion yuan, an increase of 102.4 percent (Figure 16). There were 7.72 million accounts opened in commercial banks as of end-2009.

Figure 16 Quarterly Trading Volume of Book-entry Government Bonds on the OTC Market Since 2008



Source: China Government Securities Depository Trust & Clearing Co. LTD.

Stock Market Performance

In 2009, the stock market index showed an upward trend. The stock index gradually went up amid fluctuations since its rebound in November 2008. After reaching its high in August 2009, the stock index plunged and then fluctuated upward. At end-2009, the Shanghai Composite Index closed at 3277.14 points, up 80 percent from end-2008. In 2009, the Shanghai Composite Index reached the peak of 3478.01 points and the trough of 1844.09 points, leaving a gap of 1633.92 points. While the Shenzhen Composite Index closed at 1201.34 points at end-2009, up 117 percent from end-2008. The Shenzhen Composite Index witnessed the peak of 1240.64 points and the trough of 557.69 points in 2009, leaving a gap of 682.95 points. Prices of stocks listed on the Growth Enterprises Board rose 32 percent on a cumulative basis since the Board was launched.

In 2009, the number of listed companies and market capitalization increased substantially from the

^①Other financial institutions mainly included postal savings banks, finance companies and urban credit cooperatives.



previous year. As of December 31, 2009, there were 1718 listed companies on the Shanghai and Shenzhen stock exchanges. Total market capitalization amounted to 24.4 trillion yuan with 15.1 trillion yuan of free-float capitalization, up 101 percent and 234.5 percent respectively from the previous year. At present, China's total stock market capitalization ranked the third in the world, only second to Japan in Asia. The Growth Enterprises Board was formally launched on October 31, 2009. As of December 31, 2009, there were 36 companies listed on the Growth Enterprises Board, with a free-float market capitalization of 29.9 billion yuan.

Trading volume on the stock market expanded. Turnover of A-share market on Shanghai Stock Exchange totaled 53.6 trillion yuan, with a daily turnover of 219.67 billion yuan, up 100.7 percent and 102.3 percent respectively year on year.

Foreign Exchange Market Performance

Spot trading of RMB versus foreign exchanges

In 2009, the spot foreign exchange market developed steadily and the trading volume increased 19.3 percent from the previous year, among which the trading volume of the US Dollar, Japanese yen and euro increased, while that of the Hong Kong dollar and the GBP decreased.

At end-2009, the central parity of the RMB against the US Dollar was 6.8282 yuan per dollar, representing an appreciation of 0.09 percent compared with that of the end of the previous year. The daily floating band of RMB versus the US Dollar averaged 30 bps, much smaller than 111 bps in 2008, and the flexibility of RMB spot exchange rate decreased accordingly. The RMB exchange rate against other major currencies depreciated after a rise.

RMB forward and swap transactions

In 2009, there were 2501 transactions on the RMB

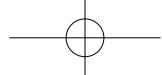
forward market, with a total turnover of US\$9.8 billion and a daily average of US\$40 million, down 43.8 percent from the previous year. The forward transactions of USD versus RMB, HKD versus RMB, JPY versus RMB, euro versus RMB and GBP versus RMB were US\$9.3 billion, HKD 730 million, 2.4 billion yen, 240 million euro and GBP 990 thousand respectively. Forward transactions mainly focused on maturities of 9 months to 1 year with a turnover of US\$3.77 billion, accounting for 38.6 percent of the total. There was few transactions with maturities of above 1 year, while transactions with maturities of less than 9 months distributed evenly.

There were 31000 transactions on the RMB swap market, totaling US\$ 801.8 billion, with a daily average of US\$3.29 billion, representing an increase of 82.1 percent year on year. In particular, the swap transactions of USD versus RMB, HKD versus RMB, JPY versus RMB, euro versus RMB were US\$ 801.2 billion, HK\$ 420 million, 4.56 billion yen and 330 million euro respectively. Transactions mainly concentrated on maturities of less than 3 months. In particular, the transactions of the USD versus RMB overnight swap registered US\$519.3 billion, accounting for 64.8 percent of the total, up 21 percent from the previous year.

Foreign currency pairs transactions

In 2009, the transactions of foreign currency pairs on the interbank market amounted to US\$40.7 billion, with a daily average of US\$170 million, down 35.8 percent year on year. Among the most actively traded foreign currency pairs, the USD against the HKD, the euro against the USD and the GBP against USD accounted for 51 percent, 27.8 percent and 7.3 percent of the total respectively.

As of the end-2009, there were 276 participants in the interbank spot foreign exchange market, 8 more over end-2008. In particular, the number of market-makers increased to 24 at end-2009 from 22 at end-2008; the number of non-financial firms and non-banking financial institutions increased to 11 from 4 at end-2008; there



were 69 member banks on the currency pairs market, 14 more than the previous year, of the 69 member banks, 16 were market makers.

Gold Market Performance

Turnover of the gold market increased steadily

In 2009, spot gold transaction volume totaled 4 710.82 ton, representing a year-on-year growth of 247.05 ton, or 5.53 percent; the transactions valued at 1 028.876 billion yuan, representing a year-on-year growth of 159.271 billion yuan, or 18.32 percent. Daily transactions averaged 19.31 ton, representing a year-on-year growth of 6.34 percent. Turnover of gold futures amounted to 6 812 ton in 2009, representing a year-on-year decrease of 14.2 percent, and the transactions of gold futures valued at 1 527.28 billion yuan, representing a year-on-year growth of 2 percent.

Gold price volatility intensified and reached record high

The gold price on Shanghai Gold Exchange went up amid fluctuations, basically in line with the movement of gold price on the international market. In 2009, the gold price on the international market reached a record high, exceeding US\$1000 per ounce and US\$1 100 per ounce in succession, and reaching a peak of US\$1 182.75 in November. The gold price on the domestic market was also on a rise, hitting a record high of 269.25 yuan per gram, while the lowest gold price during the year was 178 yuan per gram. At end-2009, the gold price closed at 244.50 yuan per gram, up 26.95 percent from 192.60 yuan per gram at the year beginning. The weighted average of the gold price stood at 215.35 yuan per gram, an increase of 18.19 yuan over 2008.

Major Policy Measures for Financial Market

Efforts were made to further standardize bond registration, depository and settlement

Bond registration, depository and settlement are vital links of risk prevention on the bond market, and their standardized operation is an important guarantee to put the role of the bond market into full play, and also a basis to safeguard the legitimate rights and interests of market participants. In March 2009, the PBC promulgated the *Administrative Measures for the Registration, Depository and Settlement of Bonds on the Interbank Bond Market*. As the basic regulation governing the interbank bond market, the Administrative Measures helped further standardize the business of bond registration, depository and settlement, protect the legitimate rights and interests of investors, prevent related risks, and put the role of the bond market into better play.

Efforts were made to further improve the management of financial bond issuance

In order to further standardize and improve the management of financial bond issuance, improve the transparency of review and approval of financial bond issuance, strengthen market discipline and risk-sharing mechanism, the PBC, based on experiences of managing financial bond issuance in the past few years, promulgated the *Administrative Procedures for Financial Bond Issuances on the National Interbank Bond Market*. The Administrative Procedures further defined the scope of currencies that are allowed to issue financial bonds, standardized the specific administrative procedures regarding the management over financial bond issuance, and unveiled the *Registration Form for Issuing Financial Bonds* and the *Registration Form of Issuing Financial Bonds for Record Keeping* to be filled out by issuers. In line with the requirements of the Administrative Procedures, the National Interbank Funding Centre and the China Government Securities Depository Trust & Clearing Co. LTD. released the *Operational Details Regarding Information Disclosure of Financial Bonds*



on the National Interbank Bond Market to strengthen information disclosure of financial bonds.

Efforts were made to unify the master agreement of derivative transactions on the OTC market

The master agreement of the derivative transaction is the basic rule to strengthen market self-discipline, standardize participants' behavior in conducting derivative transactions, and an institutional arrangement for the development of the financial derivatives market. *Functions of the former Master Agreement for Financial Derivatives on the National Interbank Market* and the *Master Agreement for Foreign Exchange Derivatives on the Interbank Foreign Exchange Market* overlapped. To solve this problem, the PBC took efforts to consolidate the two and released the Announcement No. 4 in March 2009, enabling the National Association of Financial Market Institutional Investors (NAFMII) to launch the new *Master Agreement of Financial Derivatives on the Interbank Market*. The standardization of master agreement for financial derivative transactions on the OTC market helped improve efficiency and reduce legal risks.

Set up the Interbank Market Clearing House Co., Ltd.

On Nov. 28, the Interbank Market Clearing House Co., Ltd. (hereinafter referred to as the "Clearing House") was formally set up in Shanghai. The Clearing House mainly provided direct and indirect RMB and foreign currency clearing services for transactions of foreign currency and their derivatives, including clearing, settlement, delivery, margin and collateral management, information services, consultation business, and other business prescribed by the PBC. As the most important intermediary service institution for the interbank market, the Clearing House would manage counterpart risks on the interbank market on a consolidated basis and provide fund clearing for market participants. It thus facilitated

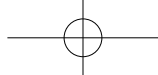
the separation and independence of the 3 core procedures on the interbank market, namely trading, clearing and settlement. The establishment of the Clearing House was a major step taken by the PBC to implement overall arrangements of the central government, tackle with the international financial crisis, deepen financial market reform, and strengthen financial infrastructure. The Clearing House would further improve clearing efficiency, reduce settlement cost, provide necessary technology support for financial product innovation, improve market transparency, acquire information on exposures of market participants in a comprehensive and timely manner, better safeguard systemic financial risks, and maintain the stability of the financial system. In addition, located in Shanghai, the Clearing House would help build Shanghai into an international financial center.

Innovation was made to launch the collective bills scheme for SMEs

In November 2009, SMEs collective bills of Shunyi District of Beijing, SMEs collective bills of Zhucheng City of Shandong Province, and SMEs collective bills tailored to the needs of the agricultural sector of Shouguang City of Shandong Province, which were registered with the NAFMII, were successfully issued, raising a total of 1.265 billion yuan. The average over-subscription ratio of the issues was 1.5 times. The successful issuance of SMEs collective bills helped put into full play the role of the interbank market in allocating resources, and was a meaningful exploration to use the interbank market to alleviate the financing difficulties of SMEs and promote the development of the real sectors.

Efforts were made to adjust the policy on trading and circulation of bonds so as to support the financing needs of SMEs

In order to further promote the healthy development of the bond market and support the financing needs of SMEs, the PBC released the Announcement No.1 [2009],



abolishing the requirement that bond issuance on the interbank market must be above 500 million yuan, so as to create a favorable policy environment for small-amount bond financing by SMEs.

Efforts were made to further enrich types of investors on the interbank bond market

In March 2009, the PBC made announcement (the PBC Announcement No.5 [2009]) on issues concerning opening bond accounts by fund management companies on the national interbank bond market in the name of specific asset portfolios. On July, the PBC released the Announcement No.11 [2009], allowing securities firms to open bond accounts on the national interbank bond market for the purpose of conducting securities asset management. By then, the types of non-legal person investors had covered annuities, products of insurance companies, trust products, specific portfolio management of fund management companies, and asset management plans of securities firms. The types of investors on the interbank bond market were further diversified, and market liquidity was expected to further increase.

Efforts were made to steadily promote the opening-up of the financial market to the outside world and increase the coverage of debt issuers

Since the promulgation of the *Interim Measures for the Administration of RMB Bond Issuance in Hong Kong Special Administrative Region by Domestic Financial Institutions* in June 2007, 5 commercial banks incorporated in the Mainland China had issued a total of 25 billion yuan of RMB bonds in Hong Kong SAR. In 2009, to implement the *Several Opinions of the General Office of the State Council on Providing Financial Support for Economic Development*, which stipulated that Hong Kong enterprises or financial institutions heavily involved in business in the Mainland, with the authorization of the State Council, were allowed to issue RMB bonds in Hong Kong SAR. The Bank of East Asia (China) and the HSBC (China) had since successfully issued 4 billion yuan and 3 billion yuan of RMB bonds respectively. This move would help Mainland-incorporated Hong Kong banks to secure stable RMB funding, and further promote investors' confidence in the financial market of Hong Kong.

In the meantime, to implement the requirements of the *Several Opinions*, reinforce financial support to economic development, and broaden financing channels for financial leasing companies and auto finance companies, the PBC and the CBRC jointly released an announcement permitting eligible financial leasing companies and auto finance companies to issue financial bonds.



BOX

The Monitoring and Management of Financial Markets

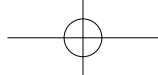
Since its founding in August 2005, the PBCSHO has devoted efforts to developing a financial market monitoring platform. It has established a financial market monitoring and analysis system, and built up a monitoring framework and management model which attach equal importance to task-specific monitoring and comprehensive monitoring, and combine daily monitoring with long-term monitoring. Currently, supported by daily, monthly and quarterly monitoring reports, up-to-date information disclosure and express reports, the financial market monitoring and analysis system has been improved continuously.

Task-specific monitoring is combined with comprehensive monitoring. The PBCSHO not only conducts macro monitoring of the whole financial market, but also micro monitoring targeting and focusing on specific financial markets. Meanwhile, monitoring is conducted both on a daily and long-term basis. The reporting system is composed of monitoring and analysis reports on market responses to major policy decisions, daily as well as monthly reports, and short-term dynamic monitoring. The PBCSHO also discloses results of year-long monitoring and analysis by issuing the *China Financial Market Development Report*. In addition, the financial market monitoring and analysis system has been developed continuously. Covering basically all types of transaction data of China's financial market, the system makes it possible to find out historical monitoring indicators of all financial markets, assess current risks and conduct research on the relations among these risk indicators.

In addition to the interbank lending market, the bond market, the gold market, the foreign exchange market, the wealth management market, the stock market, the futures market and the derivatives market, financial market monitoring and analysis also covers the relations between these markets as well as the impact of macroeconomic and financial environment on financial markets. The above-mentioned markets are mainly monitored in terms of quantity and price, stock and flow, aggregate amount and structure, and prices at specific time points and rate of change.

Committed to enhancing market monitoring to improve market management, the PBCSHO places varied emphasis when monitoring different financial markets. In daily monitoring, for instance, it combines interbank lending market monitoring with transparency management, supplements bond market monitoring with record-keeping, highlights the business of commercial banks in monitoring the gold market, and focuses on the change of indices or prices in the stock and futures market monitoring. It focuses on the overseas derivatives when monitoring the foreign exchange market, and on banks, trust companies and securities companies qualified for innovative businesses when monitoring the wealth management market. The consistent, dynamic, timely and effective monitoring and analysis has provided reference to the leadership for decision making, has improved market management, and has promoted steady and sound market performance as well.

By the end of December 2009, the PBCSHO had completed a total of 250 daily monitoring reports, eight monthly reports, three quarterly reports and one annual report. As a member of the monitoring



and analysis team for financial crisis management, it has submitted altogether 56 reports to relevant departments and leaders in the PBC Beijing Headquarters, targeting abnormal market performances and changes in fund flows. Besides, the PBCSHO has also extended the scope of monitoring and made it more dynamic, handing in a total of 56 issues of stock market reports on the mid-day and daily closings, 34 interbank market reports, 44 domestic commodity spot market reports, and 44 domestic commodity futures market reports.

In terms of the type of markets, the PBCSHO completed throughout 2009 over 60 quarterly and monthly reports on the interbank lending market, the bond market, the gold market, the foreign exchange market and the wealth management market, and submitted 68 pieces of information on various financial markets. Apart from that, 55 financial institutions were approved to adjust the limit on interbank lending, 81 were granted market access, and 34 exited the market. Meanwhile, transparency management was enhanced. The PBCSHO supervised the financial report disclosure by members of the interbank market and continued to promote information disclosure among new members on a trial basis. After the launch of the pilot program of RMB settlement of cross-border trade transactions, the PBCSHO closely monitored the interbank RMB lending among RMB clearing banks in Hong Kong and Macao, spotted in time non-compliance in the financing under RMB accounts, and put forward recommendations for improving regulation and supervision. In the bond market, 11 institutions that failed to conduct filing were penalized in various ways including criticism with public notice, admonishment talks, and making up for missing work procedures, which has safeguarded the effectiveness of policies. In addition, the PBCSHO has also strengthened real-time monitoring and analysis of market risks and abnormal trading, and paid close attention to the development of the international financial crisis and its impact on the domestic bond market. In the gold market, changes in international gold prices and contributing factors were monitored in a dynamic manner, statistics regarding the exchange and OTC trading by commercial banks were collected, and attempts were made to build an electronic gold market monitoring and analysis system. In the foreign exchange market, China-related stock index futures such as FTSE Xinhua China A50 and Hong Kong H-share market, and the trading of overseas RMB derivatives were both monitored and analyzed on a monthly basis. The PBCSHO has also watched carefully the movement of overseas RMB exchange rate and its interaction with the domestic RMB exchange rate, and analyzed the impact of exchange rate movements on industries, etc.



CREDIT POLICY

In 2009, the PBC carried out the overall strategy of the Central Committee of the Communist Party of China and the State Council to expand domestic demand, restructure the economy and improve people's welfare by formulating and implementing timely macro credit policies in line with the appropriately accommodating monetary policy. Guided and urged by the PBC, financial institutions allocated credit resources reasonably, improved credit services and optimized credit structure. They were encouraged to increase credit support for both key and weak sectors of the economy, including support for investment projects of the central government, the development of agriculture, rural areas and farmers, small- and medium-sized enterprises (SME), the service sector, employment-raising efforts, poverty-stricken students and post-quake reconstruction while strictly controlling loans to sectors of high energy consumption, high pollution and excess capacity. Remarkable achievements have been made in this regard.

Active and strong support was provided for the restructuring and revitalization of key industries and for curbing excess capacity

In early 2009, the PBC and CBRC jointly promulgated the *Guiding Opinions on Further Adjusting the Credit Structure to Promote Steady and Rapid Economic Growth*, requiring financial institutions to further enhance credit restructuring and allocate credit resources reasonably to promote steady and relatively fast economic growth. In the second half of the year, as macroeconomic situation changed, the PBC, together with the CBRC, the China Securities Regulatory Commission (CSRC), and the China Insurance Regulatory Commission (CIRC) issued the *Guiding Opinions on Further Improving Financial Services to Support the Restructuring and Revitalization of Key Industries and for Curbing Overcapacity in Some Sectors (the Opinions)* with focus on making credit policies more preemptive, well-targeted, and conducive to structural adjustment. The Opinions requires financial institutions, apart from providing strong financial support for the restructuring and revitalization of key industries, to act as the floodgate that limits loans to sectors with excess capacity. Meanwhile, in line with the principle of differentiated treatment which means supporting some

industries while suppressing others, financial institutions, were guided and encouraged by the PBC to enhance financial services in the fields of service outsourcing, energy saving and emission reduction, technological innovation and upgrading, mergers and acquisitions, and balanced regional development while strictly containing loans to high-polluting and high energy-consuming industries.

A series of measures were adopted to enhance financial services related to the development of agriculture, rural areas and farmers leading to accelerated credit growth in these areas

The PBC applied a variety of monetary policy instruments including central bank lending for the development of agriculture and rural areas, rediscount and reserve requirement ratio, and gave first priority to the rediscount of bills related to the development of agriculture and rural areas and those issued, accepted and held by county-level enterprises or small- and medium-sized financial institutions. It encouraged financial institutions to increase credit to agriculture, rural areas and farmers. In addition, it sped up efforts to encourage innovation of financial products and services



in rural areas by urging financial institutions to launch more products and services tailored to agriculture, rural areas and farmers. Through joint efforts with other relevant departments, the PBC promulgated the *Guiding Opinions on Improving Financial Services to Support the Ownership System Reform of Collectively-owned Forest and the Development of Forestry*, calling on financial institutions to offer services to bolster the forest ownership reform and development. As a result of combined effect of multiple measures, growth of loans to agriculture, rural areas and farmers accelerated remarkably with the year-end outstanding loans rising 32.3 percent year on year to 9.14 trillion yuan, 11.5 percentage points higher than the growth at end-2008 and accounting for 21.5 percent of the total. In 2009, new loans to agriculture, rural areas and farmers amounted to 2.36 trillion yuan, taking up a growing share of total loans quarter by quarter.

Institutional innovation and service upgrading were enhanced to ensure a steady growth in the proportion of SME loans

The PBC carried out in a down-to-earth manner the *Opinions of the State Council on Further Promoting the Development of Small and Medium-sized Enterprises*. It improved policy research and guidance, actively promoted innovation of SME financing product and the building of SME credit system, and took various SME-friendly measures including giving priority to rediscounting bills. In addition, it encouraged and guided financial institutions in innovating management systems and improving loan review and approval procedures with increasing credit support for SMEs. At end-2009, outstanding RMB-denominated SME loans of financial institutions soared 30.1 percent to 14.4 trillion yuan with new SME loans standing at 3.4 trillion yuan, showing a gradual upward trend in terms of its share in total new corporate loans.

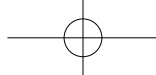
The guiding role of credit policy was given full

play and financial services propped up welfare-enhancement projects involving employment, education, poverty alleviation and college graduates working as village leaders

The PBC actively improved the scheme for secured micro loans in an attempt to promote employment of urban citizens afflicted by unemployment, college graduates, migrant workers and women in rural areas. Guided by the PBC, financial institutions engaged in student loan schemes were urged to work conscientiously to ensure all qualified college students can obtain loans in time. The PBC conducted in-depth policy studies on discount loans with emphasis on facilitating the institutional development of alleviating poverty through credit. To improve financial services for college students working as village leaders, the PBC put in place a special monitoring and reporting mechanism devoted to their entrepreneurship. In response to the national policy on balancing regional development and supporting economic development in minority concentrated regions and quake-stricken areas, the PBC implemented earnestly all state policies to promote regional economy and the economy of minority regions. The year 2009 witnessed a total of 14.26 billion yuan worth of secured micro loans and 22.82 billion yuan worth of student loans extended, with the year-end outstanding balance reaching 16.99 billion yuan and 33.17 billion yuan respectively. Outstanding discount loans for poverty alleviation approximated 20 billion yuan at end-2009. All these provided a substantial support for the welfare-enhancement projects in the fields of employment, education and poverty alleviation.

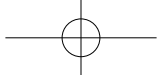
Macro adjustment policies on the real estate sector were carried out to promote stable and sound development of the real estate market

In early 2009, the PBC and the CBRC jointly issued the *Notice on Seriously Studying and Carrying out the Opinions of the General Office of the State Council on Promoting Healthy Development of the Real*



Estate Market, urging financial institutions to strive to improve financial services, strengthen credit support for consumers purchasing houses for self occupancy or improving living conditions, satisfy reasonable financing needs of real estate development companies and make continuous efforts to facilitate healthy development of the real estate sector. At end-2009, outstanding commercial real estate loans of major financial institutions reached 7.33 trillion yuan, a year-on-year growth of 38.1 percent, 27.7 percentage points higher than the growth in the corresponding period of 2008 and exceeding the growth of other loans in the same period by 6.7 percentage points. Bolstered by a series of national policies and measures, the transaction volume of newly-built commodity houses rose by a big margin and the development of government-subsidized housing accelerated. According to statistics

from the Nation Bureau of Statistics, the national sales volume of commodity houses added up to 937 million square meters in 2009, up 42.1 percent year on year. Cumulative investment in real estate development nationwide gained 16.1 percent over the previous year to 3.62 trillion yuan with the cumulative growth of monthly investment picking up continuously throughout the year. However, with the recovery of the property market, some problems emerged such as soaring housing prices in some cities at the end of 2009. In view of the new problems, the General Office of the State Council promulgated on January 8, 2010 the *Notice on Promoting Stable and Healthy Development of the Real Estate Market* in an attempt to further strengthen and improve property market readjustment and control.



FOREIGN EXCHANGE ADMINISTRATION

In 2009, due to the negative impact of the global financial crisis, there were relatively large fluctuations in China's balance of payments. In the first quarter of 2009 foreign exchange receipts and payment activities witnessed a slowdown, with a drastic decrease in the net inflow of foreign exchange. In the second quarter of 2009, due to a number of factors such as the upward trend in the global economy, the warming up of the domestic economy, and the rise in prices on China's stock and real estate markets, there was a constant increase in the net inflow of foreign exchange. By the end of 2009, the total balance of foreign exchange reserves registered US\$2399.2 billion, an increase of US\$453.1 billion over that at year-end 2008. The mid-price of the RMB/USD at year-end 2009 was 6.8282, an appreciation of 0.09 percent over that at year-end 2008.

Launching a wide range of measures to support the stable development of the foreign-related economy

The first measure is to facilitate the foreign trade activities of enterprises. Efforts were made to improve the administration of online inspections for the collection and settlement of foreign exchange from exports and to streamline the relevant procedures. Some enterprises were given permission to carry out settlement before inspection, and the proportion of foreign exchange collection and settlement for sales revenue received in advance was raised to 30 percent so as to mitigate the cash flow problems of the export enterprises. With the aim of encouraging banks to conduct trade financing business, the quota for short-term external debts of financial institutions in 2009 was raised by 12 percent over the 2008 level, and all the newly-added quotas were required to be used to support the financing of enterprise imports and exports. The SAFE gave the green light to enterprise groups to carry out centralized management of

foreign exchange funds without classifying these funds into the current account and the capital account and to employ foreign exchange funds in packages in an effort to increase the efficiency of the use of foreign exchange funds. The second measure is to actively guard against the risks of massive capital outflows caused by the global financial crisis. The SAFE kept close watch on changes in the situation and formulated and submitted a contingency plan to prevent abnormal cross-border capital outflows so as to maintain the stability of the macro economy and to preserve the economic and financial security of the country. The third measure is to strengthen assessment and prevention of the risks to foreign-related assets. Efforts were made to improve the statistics on foreign exchange assets and liabilities of financial institutions so as to monitor the overseas investment risks of financial institutions in an all-round manner.

Continuing to deepen the reform and to enhance the role of foreign exchange administration to serve the needs of economic development

The first measure is to implement the plans of the Central Government to promote the opening-up of the service sector, to streamline the procedures for examination of foreign exchange receipts and payments of service outsourcing enterprises, to provide policy facilitation for account opening, fund exchanges and remittances, and so forth for service outsourcing enterprises that maintain the relevant standards and to offer them more hedging instruments. The second measure is to vigorously support the "go-global" strategy. Examination of the sources of foreign exchange funds for overseas investment and ratification of fund remittances were adjusted to registered management, and the restrictions on fund exchanges and remittances for overseas direct investment of Chinese enterprises were



basically lifted; various kinds of domestic enterprises living up to the relevant standards were allowed to make overseas loans within certain limits by means of using self-owned foreign exchange, purchasing foreign exchange with RMB, and so forth in an effort to bolster overseas investments by domestic enterprises. The third measure is to further foster and develop the foreign exchange market. The SAFE approved the entry of 7 financing firms of enterprise groups into the market to conduct transactions in an effort to enrich the diversity of market entities engaging in foreign exchange transactions; permission was given to 3 currency brokerage firms to conduct foreign exchange brokerage business in an effort to increase market liquidity and the efficiency of transactions for foreign exchange derivatives; and the SAFE launched settlement business for the net amounts of over-the-counter trading on the interbank foreign exchange market in an effort to reduce the risks of market operations. The fourth measure is to expand the scope of the pilot operations for individual domestic and foreign currency exchange franchise businesses to 13 provinces, municipalities, and autonomous regions, including Beijing and Shanghai and to 4 cities specifically designated in the state plan, in an effort to further meet demands of individuals for domestic and foreign currency exchange in international tourism centers and some foreign-related areas with a robust economy. The fifth measure is to continue to perfect foreign exchange administration for qualified foreign institutional investors (QFII) and qualified domestic institutional investors (QDII), to increase the investment quotas for QDII, to promote the development of the domestic capital market, and to further expand overseas investment channels for domestic institutions and individuals. The sixth measure is to carry out a study of the prospects for major policies concerning such issues as the convertibility of the capital account, the writing-off and verification of imports and exports and the foreign exchange account, and so forth in an effort to make full preparation to further promote the reform of the foreign exchange administration system.

Perfecting statistics and supervision to guard against the risks of abnormal cross-border capital flows

The first measure is to perfect the monitoring system for cross-border fund flows. The SAFE completed promotion of a new version of the balance of payments declaration system, in an effort to increase the timeliness and accuracy of statistical data on the declaration of the balance of payments. Efforts were made to standardize the opening and use of foreign exchange accounts within the territory of China by overseas institutions and to incorporate them into the statistical monitoring. A platform for data transmission from the SAFE to its branch bureaus was established, with the aim of facilitating the efforts of the branch bureaus to strengthen data monitoring and analysis. The second measure is to improve administration of cross-border fund flows. Efforts were made to strengthen monitoring and analysis of abnormal cross-border funds and to formulate plans to deal with and to crack down on abnormal fund flows. The SAFE revised the *Measures for the Examination of Bank Compliance with Foreign Exchange Administration Regulations* in an effort to enhance administration of bank compliance with the regulations that deal with foreign exchange businesses. Efforts were also made to improve the administration of foreign exchange settlement and sales by individuals, to standardize foreign exchange settlement by individuals with foreign currency in cash, and to conscientiously guard against the inflow and outflow of abnormal funds via individual channels. The third measure is to severely crack down on illegal and criminal foreign exchange activities such as underground money shops. In 2009, in collaboration with the public security organs, the SAFE ferreted out 11 cases of underground money shops, 8 cases of illegal online foreign exchange speculation, 11 cases of illegal foreign exchange transactions, and 51 nests of illegal foreign exchange transactions, involving a total amount of US\$4.2 billion. The fourth measure is to promote construction of a foreign exchange credit system and to



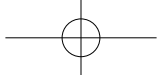
intensify efforts to investigate abnormal cross-border funds. In 2009, 1 694 items of information concerning illegal foreign exchange activities and other negative information were disclosed. A prize-winning nationwide foreign exchange knowledge contest was launched with the participation of 240 000 person-times, which achieved positive social effects. Seven special inspections and investigations were carried out, with 2 278 cases put on the record and 2 206 cases closed, involving a total amount of US\$3.93 billion.

Safeguarding the security of foreign exchange reserve assets

Continuing to place priority on risk prevention and based on an in-depth analysis of the economic and financial situations and an overall assessment of risk conditions, the SAFE made efforts to further optimize the structure of currency assets and to actively explore investment strategies applicable to the operation of massive foreign exchange reserves. By catering to the requirements of the overall strategies of the Central Government and by adhering to the principle of “preserving security and attaining reasonable returns from investment,” the SAFE played an active role in purchasing bonds of international financial organizations and buoying up overseas investments and international cooperation. Efforts were made to further improve the organizational structure for operations and management, to optimize the investment decision-making process, to perfect the early-warning risk mechanism, to establish an internal rating system, to increase capability to deal with emergencies, and to ensure the continuity and security of the operations of foreign exchange reserves. Efforts were made to strengthen construction of ranks of cadres, enhance the recruitment of talent from overseas countries and regions, and improve managerial and operational capabilities.

Constantly increasing the transparency of foreign exchange administration

The first measure is to hold special news conferences at the News Office of the State Council to explain current issues concerning the foreign exchange situation, the operation of foreign exchange reserves, and so forth for the general public. Intensified efforts were made to disseminate relevant information about foreign exchange; the SAFE released information about 110 enterprises involved in illegal foreign exchange transactions and disseminated information in a timely manner about results in cracking down on illegal foreign exchange transactions, in an effort to raise public awareness of the risks and dangers of illegal foreign exchange transactions. The second measure is to solicit public opinion before promulgation of significant policies in such areas as administration of foreign exchange for overseas investment, the opening of foreign exchange accounts by overseas institutions within the territory of China, and so forth in an effort to make the policy-making process more scientific. The third measure is to sort out and release all foreign exchange statistical time-series data that were made public from 1985 to 2009 in an effort to facilitate data analysis and data utilization by various groups in the society and to increase the comprehensiveness and the transparency of foreign exchange statistical data and to make the data more systematic. The fourth measure is to post on the official web site of the SAFE *An Overview of Foreign Exchange Administration* in which the objectives, framework, business administration principles, policy key points, and so forth of foreign exchange administration are presented in a concise and simple manner in an effort to facilitate comprehension of foreign exchange administration policies and business requirements by the general public. The fifth measure is to comprehensively release information about examination and approval of quotas for investments of qualified institutional investors, making the information public on a quarterly basis and implementing a commission system for quota examination and approval, in an effort to further increase the transparency of administrative licensing. The sixth



measure is to intensify efforts to sort out the existing laws and regulations on foreign exchange administration. In 2009 a total of 250 regulatory documents on foreign exchange administration were annulled or declared

invalid, bringing the total number of foreign exchange administration laws and regulations down to about 500; and the major administrative licensing items for foreign exchange administration were reduced from 39 to 24.

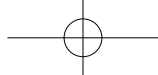
BOX

Foreign Exchange Policies in Support of the “Going Global” Strategies of Enterprises

Based on the industrial guidelines for overseas investment promulgated by the Central Government and the actual circumstances of the balance of payments, the SAFE has been actively implementing policy adjustments and institutional innovations in recent years with the aim of supporting the “going global” strategies of enterprises. A wide array of policy adjustment measures was launched to streamline the procedures for examination and approval of foreign exchange administration for overseas investments as well as to reform the current systems and methods for foreign exchange administration of overseas investments.

Since 2005, pilot operations of the foreign exchange administration system reform for overseas investments that had been initiated in some provinces and municipalities in 2002 have been expanded throughout the country. Efforts have been made to broaden the sources of foreign exchange funds for overseas investments by enterprises, to raise the quota for foreign exchange purchases for overseas investments, to remove the compulsory regulations requiring that enterprises remit their profits from overseas investments to China, and to further delegate authority for examination and approval of foreign exchange funds for overseas investments by enterprises to lower levels. During the following two years, the quota limits on foreign exchange purchases for overseas investments were lifted and authority for examination and approval of foreign exchange funds for overseas investments was further delegated to lower levels. As a consequence, the foreign exchange bureaus of the SAFE in the localities of the enterprises were granted authority to examine and approve the sources of foreign exchange funds for overseas investments by local enterprises.

In order to further promote the development of overseas direct investment, in 2009 the SAFE promulgated additional measures to streamline foreign exchange administration of overseas direct investments by domestic institutions based on experience gained from the reform of the past several years and the changes and recent developments in the balance of payments. As a result, ex ante examination and approval of the sources of foreign exchange funds for overseas investments were replaced by ex post registration and filing of relevant documents; the procedures for fund remittances were streamlined and the sources of foreign exchange funds were expanded. In January 2009, the information system for administration of foreign exchange for direct investment went on-line. By use of this system, the original manual ratification of foreign exchange administration for



overseas direct investments was replaced by electronic ratification. In addition, the system enabled the SAFE, the enterprises, and the banks to interconnect through networking and further refine and improve statistical monitoring of the inflow and outflow of cross-border funds under the item of overseas direct investment.

While promoting the reform of the foreign exchange administration system for overseas investments, the SAFE has been constantly enhancing efforts to provide policy support to alleviate the financing difficulties and shortfall of follow-up funds of the “going global” enterprises. In 2004 the SAFE gave a green light to the constituent members of multinational companies to provide financing support to their overseas invested enterprises via financing firms, bank entrusted loans, or direct loans. In 2005 the SAFE transformed its administration mode for the provision of external guarantees for external financing by domestic banks (including foreign-funded banks) to their overseas invested enterprises from the original deal-by-deal examination to balanced administration; permission was granted to enterprises with a certain scale of business to carry out balanced management for their external guarantees, thus facilitating support for the financing of overseas invested enterprises of domestic enterprises. In 2009 the SAFE made further adjustments to the policy concerning loans granted by domestic enterprises to overseas invested enterprises. Efforts were made to lower the entry threshold, to increase the quota for loan extensions, to delegate more examination and approval authority to lower levels, and to streamline and cancel some procedures for examination and approval of currency exchange and remittances, with the aim of further mitigating the financing difficulties of overseas enterprises and facilitating follow-up operations of overseas enterprises. In addition, in order to support the development of enterprises, the SAFE approved a quota of 2 billion yuan for the China Development Bank and 10 billion yuan for the Export-Import Bank of China for external loans in RMB, to be used by overseas financial institutions and enterprises for procurement of equipment, services, patented technologies, and other trade items from China.



BALANCE OF PAYMENTS POSITION

In 2009, due to impact of the global financial crisis, the overall growth of China's balance of payments slackened to some extent, whereas the balance of payments continued to post a twin surplus. Specifically, the surplus under the current account totaled US\$297.1 billion, decreasing by 32 percent as compared with that in the previous year, whereas the surplus under the capital and financial account totaled US\$144.8 billion, rising by 664 percent as compared with that in the previous year. By the end of 2009, China's foreign exchange reserves reached US\$2 399.2 billion, a rise of US\$453.1 billion over that at the end of the previous year.

The surplus under the current account declined

In 2009, the surplus under the current account reached US\$297.1 billion, a decrease of 32 percent compared to that in the previous year. In 2008, the surplus under the current account increased by 15 percent over that in the previous year.

The surplus in trade in goods declined. According to the statistical coverage of the balance of payments, China's exports in goods amounted to US\$1 203.8 billion, a drop of 16 percent from that of 2008; the total value of imports amounted to US\$954.3 billion for the entire year, a drop of 11 percent. In 2009, the surplus in trade in goods declined by 31 percent to reach US\$249.5 billion.

Trade in services registered dramatically increased deficit. Receipts of trade in services reached US\$129.5 billion, a drop of 12 percent; while payments were US\$158.9 billion, almost equal to that in 2008. The deficit reached US\$29.4 billion, a rise of 149 percent. The 93 percent increase in the deficit under transportation and the 4-billion-dollar deficit under tourism (in 2008 a surplus of US\$4.7 billion was posted under tourism) are major contributing factors to the increase in the deficit in

trade in services.

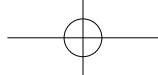
The surplus in income posted a slight increase. Receipts in income reached US\$108.6 billion, a rise of 7 percent, whereas payments reached US\$65.3 billion, a rise of 9 percent. The surplus reached US\$43.3 billion, a rise of 4 percent. With further expansion in China's total scale of external assets, the receipts in investment income reached US\$99.4 billion, rising 7 percent compared to that in the previous year. Under the circumstance of global economic recession, the growth of service incomes of China's overseas workers slackened. The net inflows of compensation of staff and workers amounted to US\$7.2 billion, rising 12 percent over 2008 level, with the growth rate falling 35 percentage points as compared with that of the previous year.

The surplus under the capital and financial account increased significantly

Inflows under the capital and financial account amounted to US\$746.4 billion, decreasing by 3 percent, whereas outflows were US\$601.6 billion, decreasing by 20 percent. The surplus reached US\$144.8 billion, a rise of 664 percent.

The surplus in direct investment declined. The surplus in direct investment reached US\$34.3 billion, dropping by 64 percent. Specifically, the net inflows of inward foreign direct investment to China approached to US\$78.2 billion, dropping by 47 percent. The net outflows of China's external direct investment reached US\$43.9 billion, dropping by 18 percent.

The surplus in portfolio investment registered a slight decline. The surplus in portfolio investment reached US\$38.7 billion, a drop of 9 percent compared to that in the previous year. Specifically, the net flowback of China's portfolio investment assets amounted to US\$9.9 billion, a drop of 70 percent from the 2008 level. The



surplus in China's portfolio investment liabilities reached US\$28.8 billion, a rise of 191 percent compared to that in 2008.

The deficit in other investment turned into surplus. The surplus in other investment reached US\$67.9 billion, compared to the 121.1-billion-dollar deficit in 2008. Specifically, the surplus in the assets of other investment reached US\$9.4 billion, compared to a deficit in the assets of other investment of US\$106.1 billion posted in 2008. The surplus in the liabilities of other investment reached US\$58.5 billion, compared to the 15-billion-dollar deficit in 2008.

The reserve assets continued to increase

In 2009, China's international reserves continued to rapidly grow. Specifically, after adjusting for changes in

non-transaction value (valuation effect) such as exchange rate and price, China's international reserve assets increased by US\$398.4 billion, a drop of 17 percent compared to that in the previous year on a comparable basis. Specifically, the changes in foreign exchange reserve transactions amounted to US\$382.1 billion; special drawing rights (SDRs) and monetary gold posted a total increase of US\$16 billion.

Net errors and omissions occurred on the debit side

In 2009, net errors and omissions occurred on the debit side and reached US\$43.5 billion, equivalent to 2 percent of the combined value of exports and imports of goods based on the balance of payments statistical coverage. The ratio was well within the internationally accepted benchmark of 5 percent.



LEGAL DEVELOPMENT

Financial legislation was strengthened to improve the financial legal system

In 2009, the focus on financial legislation was the improvement of laws, regulations and rules relating to the PBC's mandates to optimize financial environment. First, the PBC actively participated in legislation conducted by the legislative body to facilitate the building of legal system closely relating to finance. The PBC participated in the formulation or amendment of a large number of important laws such as *Budget Law of the People's Republic of China*, *Tort Liability Law of the People's Republic of China*, *Criminal Law of the People's Republic of China*, *Social Relief Law of the People's Republic of China*, *The Administrative Urban Real Estate Law of the People's Republic of China*, *Land Administration Law of the People's Republic of China*, etc. Second, the PBC made steady progress on drafting or amending administrative regulations relating to its mandates and promoted the improvement of legal environment of finance. In order to standardize and promote healthy and orderly development of credit information service, credit market and gold market as well as to enhance cash management, great progress has been made in vigorously promoting the formulation or amendment of financial regulations including the *Administrative Regulations on Credit Information Collection*, *Administrative Regulations on Cash*, *Administrative Regulations on Gold Market*, *Administrative Regulations on Deposit Insurance*, *General Rules on Lending*, etc. Third, the PBC issued various regulations and regulatory documents on macroeconomic management, financial stability and financial service, providing legal support to the PBC in performing its functions. In 2009, more than 12 rules/regulations and regulatory documents were promulgated

Administrative Rules on Pilot Program of Renminbi Settlement of Cross-border Trade Transactions and *Regulations for Implementing the Administrative Rules on Pilot Program of Renminbi Settlement of Cross-border Trade Transactions* were promulgated to facilitate cross-border trade transactions; several regulations and regulatory documents including *Administrative Measures for the Registration, Custody and Clearing of Bonds in the Interbank Bond Market*, *Administrative Procedures for the Issuance of Financial Bonds in the National Interbank Bond Market*, *Issues Concerning the Issuance of Financial Bonds by Financial Leasing and Auto Financing Companies* were announced to protect the legitimate rights and interests of investors and to promote healthy progress on the interbank bond market; the *Administrative Rules on the Business of Electronic Commercial Draft* was issued to facilitate the development of the business of electronic commercial draft. The Rules standardizes the business procedures of the electronic commercial draft on the draw, acceptance, endorsement, guarantee and claim. Therefore, the legitimated rights of all parties involved in the business of electronic commercial draft would be protected.

Law execution got standardized to make a move in legal-based administration

To enforce the *Operational Guideline on Enforcing Law-based Administration* issued by the State Council, new progress was made with regard to further standardization and better quality of law execution as well as proper fulfillment of duties on administrative appeal. First, the appeal cases were handled with care and responsibility. Continuous steps were made by the PBC appeal office to improve its methods and mechanism of handling appeal cases and to adhere to site investigation,



which led to better quality and higher efficiency in handling appeal cases and played an important role in effectively settling administrative disputes, protecting the legitimate rights and interests of administrative counterparts, eliminating social contradictions and maintaining social stability. Second, the research on legal risks in law execution of the PBC was arranged. To reduce or avoid legal risks of law execution and to enhance its performance, the PBC combed and analyzed the legal issues found in its law execution through appeal cases handled in recent years together with relevant branches and proposed amendatory measures. Third, clearance and adjustment of the PBC's administrative permission items was accomplished in accordance with the decisions made by the *Inter-Ministerial Joint Conference of Administrative Examination and Approval System Reform*. Fourth, the PBC standardized its law executing activities, promoted law-based administration and formulated the *People's Bank of China's Rules on Procedures of Law Enforcement Inspection* on the basis of summarizing the experience of law enforcement inspection of the PBC's system.

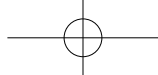
Theoretical research of financial laws was reinforced to lay the foundation for financial legislation

In the context of the international financial crisis, in response to the new issues and events arising from economic and financial sectors domestically and abroad, the PBC reinforced research on the issues of financial legislation based on the practical experiences, actively enhanced study on prospective legislation, followed the track of the reforms on financial regulation system and legal system in other nations and regions, providing theoretical support for financial reform and legislative work in China. The researches focused on the issues including “International Financial Crisis and the Reform of U.S. Financial Regulation”, “Relevant Legal Issues on the Innovation of Products and Mechanism in the Inter-bank Bond Market”, “Administrative System on

RMB Settlement of Cross-border Trade Transactions”, “The Revision and Perfection of Legal System on Negotiable Instruments”, “The Legitimacy Obstacles and Recommendations on Legalization of Private Lending”, “The Issues and Recommendations on Gold Market Management”, etc. In order to solve the financing difficulty of the small- and medium-sized enterprises, agricultural enterprises and peasants, legal issues on the innovation of guarantee modes were discussed. In-depth research on the coordination between regulations on OTC derivatives and relevant laws including *Law on Bankruptcy*, *Real Right Law* was conducted in order to make sure that the certainty of regulations on OTC derivatives is within the legal framework of China. The study on criminalizing the financing of terrorism and money laundering, freezing and confiscating property suspected of terrorist purposes and other issues was developed to promote further improvement of criminal legislation on combating money laundering and financing of terrorism. As a member of National Working Group for Immunity Legislation, the PBC participated in the research of the national legislation on immunity.

Legal service quality was enhanced and the assistance in the inquiry of the people's courts about the bank names of the RMB bank settlement accounts was accomplished

Great efforts were made to raise legal service quality; legal consultation including financial policies, financial laws and regulations, publicity of governmental affairs and so on from various entities, departments and individuals concerned was handled properly. In 2009, the PBC offered more than 300 pieces of legal advice. During the period of national clear-up of long-pending enforcement cases, the PBC actively assisted the People's courts in inquiring about the bank names of the RMB bank settlement accounts of juridical person enforcees. The regulatory documents including *Notice of General Administration Department of the PBC on*



the People's Court's Inquiry about the Bank Name of the RMB Bank Settlement Account of a Juridical Person Enforcee during the Period of National Clear-up of Long-pending Enforcement Cases and Notice of the Supreme People's Court and the PBC on the People's Court's Inquiry about the Bank Name of the

RMB Bank Settlement Account of a Juridical Person Enforcee during the Period of National Clear-up of Long-pending Enforcement Cases were released, which greatly promoted the smooth progress on the national clear-up of long-pending enforcement cases and the building of financial ecology and social integrity.



PAYMENT AND SETTLEMENT SYSTEMS

Payment and settlement systems operated smoothly and effectively

In 2009, the PBC LVPS and BEPS were maintained to operate smoothly and effectively. A total of 474 million payment transactions with a value of RMB 815.41 trillion yuan were processed. The payment and settlement systems provided safe and efficient services for both banking sector and the financial market. The National Check Image Exchange System maintained the trend of steady growth and gave a great impetus to the inter-regional application of checks.

Non-cash payment instruments were applied widely

In 2009, 21.414 billion of payment transactions with a value of RMB 715.75 trillion yuan were processed with non-cash payment instruments, up 16.85 percent and 13.07 percent from the previous year respectively. The use of bankcards became more and more popular and played an increasingly important role in stimulating the domestic demand. 3.491 billion of consumer payments transactions with a value of RMB 6.86 trillion yuan were made with the bankcards, up 32.0 percent and 73.8 percent from the previous year, respectively, accounting for 32.0 percent of the total amount of retail sales (excluding the sales of properties, automobiles and wholesale goods) in 2009. In October, Electronic Commercial Draft System (ECDS) was put into operation and the first 20 financial institutions were officially connected to ECDS, which had completely innovated the processing mode of commercial draft. The ECDS system effectively supports the development of commercial draft business and facilitates the reduction of processing costs and risks and increases transaction efficiency and broadens the enterprises' financing channels.

New advances achieved in the construction of payment infrastructure

The pilot operation of RMB Cross-border Trade Settlement System was launched in July, which marked an essential progress in process of RMB regionalization, further expended the influence of RMB and facilitated China's investment and trade. In August, a walkthrough drill of the emergency back-up facilities for payment and settlement systems in RMB and foreign currencies was carried out to enhance the emergency-handling capability and to verify the functions of the emergency back-up facilities. The LVPS underwent a function reform and its application software was upgraded to a new version with the purpose that ECDS could be used to process funds transfer and to support RMB settlements for cross-border trade based on LVPS. The constructions of the second-generation payment system and the PBC's Accounting Consolidation System (ACS) were steadily advanced. After two years of investigation and consultation and melioration, the compilation and review of the requirement specifications for the two above-mentioned systems were accomplished and the software development phase started.

Payment service environment in rural areas further improved

In 2009, the PBC promulgated the *Guidelines on Improving Payment Service Environment in Rural Areas* and took it as an important annual task to improve the payment service environment in the rural areas. The guidelines played an important guiding role in promoting the financial service level in the rural areas and in boosting the development of rural economy. The number of rural financial institutions connected to the PBC LVPS and BEPS was maintained to grow steadily.



By the end of 2009, 20 578 Rural Credit Unions (RCU), 1 035 Rural Cooperative Banks, 1 664 Rural Commercial Banks and 88 Village banks nationwide had connected to the PBC's LVPS and BEPS, making the funds transfer channels become further unimpeded. The Special Bank Card Service for Migrant Workers developed rapidly. 52 000 business offices of the rural cooperative financial institutions in 23 provinces (municipalities and autonomous regions) including Guizhou and Hunan Provinces, as well as 15 000 Service Points of the Postal Savings Bank of China started to provide acquiring service for the Special Bank Card Service for Migrant Workers and successfully handled 17.8235 million payment transactions with a value of RMB 22.102 billion yuan, up 40.4 percent and 176.9 percent from the previous year, respectively.

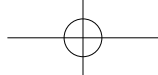
New progresses achieved in regulation of payment and settlement systems

In order to ensure the smooth and steady development of payment systems and to safeguard the public legal rights and interests, the PBC adopted a series of measures to consummate unceasingly the relevant rules and regulations and to strengthen daily supervision. In 2009, the PBC, jointly with CBRC, the Ministry of Public Security and the State Administration of Industry and Commerce, issued *Notice on Strengthening the Safety Management of Bank Cards, Preventing and Combating Bankcard-related Crimes*. With the PBC and the Ministry of Public Security as the lead, a joint office for fighting against bankcard-related illegal criminal activities was set up to enhance the bankcard security management and to intensify the efforts of preventing and cracking down the bankcard-related crime. In order to know well all the non-financial institutions engaged in providing payment services and their payment-related operation and to consummate the supervisory policy on payment market, a comprehensive registration was carried out to register all the non-financial institutions that operated in the payment

market. Significant progress was made in the real-name management system of individual RMB saving accounts. Authenticity verification of the nation-wide existing bank-account holding enterprises' citizen identity was successfully accomplished. The coverage ratio of the On-line Citizen Identity Checking System kept expanding, covering 93 percent of the banking institutions. 2.7 billion transactions were examined through the on-line checking system; the daily traffic volume rapidly increased and already reached 6 million transactions per day. All these measures effectively guarded against the illegal criminal activities, such as fraud under a false name, tax evasion, corruption and bribery as well as money laundering, etc. In order to assist the People's Courts with performing a centralized nation-wide clear-up operation of long-pending cases, the PBC, with the support of RMB Settlement Account System, helped the People's Courts to inquire the banking account held by the person subject to enforcement. Therefore, the Courts was able to easily get the account deposits details of the person subject to enforcement, and the clear-up operation achieved tangible results.

International exchange and cooperation in the area of payment and settlement unceasingly developed

In March, the PBC hosted a Workshop on Risks in Payment and Settlement Systems organized by WG/PPS (Working Group on Payment and Settlement Systems) under the EMEAP (Executive's Meeting of East Asia and Pacific Central Banks) as well as the WG/PPS' 20th meeting. Many issues were discussed at the workshop, including the important developments and existing problems in the field of payment and settlement systems as well as the challenges facing the payment and settlement systems. An inter-networking link between the PBC and HKMA (Hong Kong Monetary Authority) was established to serve as the multiple-currency payment and settlement arrangement, which marked the establishment of comprehensive cross-border cooperative mechanism in payment and settlement handling both domestic and



overseas currencies. Up to now, the arrangement started to process the business transactions in the U.S. dollar, the euro, the Hong Kong dollar and the British pound. In July, the PBC officially participated in the Committee on Payment and Settlement Systems (CPSS) under the Bank

for International Settlements and became one of its 23 official members. The PBC attended the 3rd CPSS annual regular meeting in 2009. China's international prestige in the area of payment and settlement systems was further enhanced.

BOX

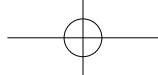
Joint Campaign on Cracking down Bankcard-related Crimes

In 2009, the PBC made continued efforts to promote the development of bankcard-related business and prevent risks in this field. Positive results were yielded in the overall reinforcement of risk management on bankcards and the prevention and crackdown of bankcard-related crimes. Bankcards have played an increasingly important role in supporting economic development and serving the people.

Improved policies and institutional arrangements on risk management. In April, the PBC, in joint efforts with the CBRC, the Ministry of Public Security and the State Administration for Industry and Commerce, issued the Notice on Strengthening the Safety Management of Bankcards and Preventing and Combating Bankcard-related Crimes, in which systematic and comprehensive requirements on risk prevention and control were released in line with the working ideas of putting prevention first, combining prevention with punishment, making clear the responsibility and employing comprehensive treatment, covering various links in bankcard-related business, such as issuance, trading, use and acquisition. In August, the PBC issued a detailed opinion to implement the above Notice by adding more pertinence and maneuverability.

Established a joint-ministerial prevention and control mechanism. In June, the PBC joined hands with the Ministry of Public Security to set up the Office on Fighting Bankcard-related Irregularities and Crimes (referred to as the Office hereinafter) to pool the resources of the PBC, public security agencies, commercial banks and China UnionPay, established a well-coordinated and efficient information sharing mechanism, strengthened risk assessment, data collection and analysis, information dissemination and education concerning bankcard-related business and promoted the campaign in a comprehensive, orderly and effective manner.

Screened security deficiencies in bankcard payment and consolidated the defense line against bankcard-related crimes through close cooperation between the banking sector and public security



agencies. In joint efforts with public security agencies, the PBC delivered dedicated campaigns to handle the risks in bankcard-related business of some bankcard issuers and acquirers, such as outsourcing of bankcard marketing, cashing out using credit cards, cross-regional bankcard acquisition and using personal settlement account as credit card acquisition account. The efforts yielded prominent results. Meanwhile, concentrated efforts were made to combat major criminal offenses, which played an important role in preempting and preventing relevant crimes. In Beijing, Shanghai, Chongqing and Changchun, several bankcard-related fraudulence cases involving large volume of money were cracked.

Put in place a reporting system of information on relevant cases and measures taken to facilitate information sharing. On the platform of the Office, the working process and requirements on information concerning cases and relevant work done were defined. The Office branches at all levels were required to submit briefings and monthly reports on their work and bankcard-related cases in a timely manner. A dedicated report was required for major bankcard-related criminal case. At the end of 2009, more than 400 pieces of reports and briefings and 64 pieces of dedicated reports had been submitted by the Office branches at the provincial level. With heightened risk awareness, commercial banks have also voluntarily submitted reports on bankcard-related risk events and cases.



BANKNOTE ISSUANCE

Cash injection and withdrawal

In 2009, the PBC adopted a series of measures to guarantee the banknote supply from two aspects of aggregate volume and structure. Net injection of banknotes nationwide accumulated to 402.7 billion yuan, up 4.8 percent from the previous year.

First, efforts were made to scientifically organize the allocation of the reserve fund. In line with the economic development, the PBC adjusted the bottom quota of reserve fund to ensure its adequacy. The PBC scientifically arranged the printing, inventory, injection, withdrawal and destruction of low-denomination banknotes to guarantee the reasonable denomination structure of banknotes and neatness of low-denomination banknotes. The PBC analyzed cash demand across the country, and timely adjusted the varieties of cash in major vaults, so as to keep the reserve fund in major vaults in accordance with the demand in its radiating area. In view of the demand and supply of specie nationwide, the PBC also adjusted the injection strategy of specie, and consolidated and pushed forward the achievement of regionalization of specie. The PBC promoted the banknotes storage in branch vaults other than the vaults located close to printing companies. Destruction of damaged banknotes was managed in quarterly plan.

Second, the PBC earnestly ensured banknote supply during holidays through the New Year to the Spring Festival. With thorough development and timely arrangement, the PBC carried out weekly report and daily report system on cash injection and withdrawal in boom season, improved booking system on cash deposit and credit in commercial banks, contained the destruction of damaged banknotes, and strengthened the allocation of the reserve fund. During the holiday season through

the New Year to the Spring Festival, net injection of banknotes nationwide accumulated to 1.0557 trillion yuan, with a peak record of 1.0634 trillion yuan, and the daily net injection of banknotes reached historical-recorded height, being 156.5 billion yuan.

Third, efforts were taken to ensure banknote supply after the outburst of emergent accidents. After the Urumchi “7.5” incident, run on the Dianbai Bank of Guangdong Province, abnormal banknote in vault in Guogan of Yunnan Province, and the heavy snow in northern Yangtse River, the PBC established reporting system, suspended vehicle transfer of reserve fund, made preparation on escort personnel and materials. The PBC also coordinated with the Transportation Bureau of the Ministry of Railway to ensure the smooth operation of escort through railway. These measures ensured banknote supply and safeguarded financial stability in the region of incidents.

Fourth, the PBC made full efforts in preparation of banknote supply in 2010 by convening work meeting of banknote supply in boom season, conducting in-depth analysis on the situation and making arrangement and organization on banknote supply in 2010 in principle of “far prior to near by, guarantee the most important and keep for backup”.

Banknote handling

Efforts were made to further reinforce the establishment of banknote handling center, to fulfill the purchase, allocation, installation and check of the banknote handling equipment, to push forward the research and development of banknote handling technology, and to strengthen the administration on objectives and procedure in order to further improve the utility of equipment and sorting efficiency. In 2009, there



were 359 sorting equipment and 39 destruction equipment in operation throughout 59 banknote handling centers. The volume of undamaged withdrawn banknotes being recycled went up by 11 percent.

Combating banknote counterfeiting

Efforts were made to push forward the anti-counterfeited banknote. In 2009, total counterfeited banknotes seized nationwide increased by 81 percent over the previous year. In particular, the counterfeited banknotes seized by the national police force increased by 274 percent and those seized by the financial institutions decreased by 11 percent.

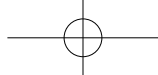
Banknote administration

Efforts were made to strengthen the links administration so that the project establishment, design, production and issuance of normal metal commemorative coins and noble metal commemorative coins were completed smoothly. The PBC enhanced examination on banknote receipt/payment business to facilitate the fulfillment of social responsibility of commercial banks and to improve the banknote service, organized quality check on RMB banknotes to promote, reinforced management on relevant advertisement of commemorative badges/goods and RMB banknotes and clearance and rectification on various illegal advertisement activities with RMB banknotes. The PBC also intensified supervision on use of RMB banknote design and operation of RMB banknotes in circulation. The PBC instructed the Manila Branch of Bank of China

to carry out cross-border shipment of RMB banknotes, analyzed and raised detailed route arrangement for supply and withdrawal of RMB banknotes across the strait, dealt with the short-term rapid withdrawal of RMB banknotes in large amount cross the border between Myanmar and China under outburst emergent incident.

Security management and institutional building

Efforts were made to push forward standardized management of reserve fund vaults and banknote processing center, centralized administration on deduction of damaged banknote and physical gold and silver, to enhance implementation of regulations and on-site examination, to promote technology innovation and to further improve security management on currency, gold and silver. The PBC carried out monitoring analysis on RMB banknote circulation, strengthened analysis and research on relationship between loan granting and cash injection and cash operation. The PBC organized accounting standardization contest of banknote issuance, formulated nationwide arrangements on prevention and examination of internal administrative risks of banknote issuance accounting so as to improve the accounting level, and organized training programs both at home and abroad on banknote issuance to improve the quality of professionals. The PBC also enhanced international communication and cooperation with central banks in West Africa, Indonesia, Vietnam and Japan, and strengthened communication with the US Ministry of Finance and the FED under the framework of Sino-America economic cooperation.



BOX

Anti-counterfeit Money

The CPC Central Committee and the State Council always attach great importance to the anti-counterfeit currency. In 2009, important written instructions were made on cracking down on crimes relating to money counterfeiting, on strengthening public education and guidance, and on improving security technology. The PBC, in cooperation with relevant departments, implemented the instructions of the CPC Central Committee and the State Council, timely convened the fourth joint conference on cracking down on counterfeit currency under the State Council and meeting of partial members of the joint conference to take actions from all aspects through analyzing relevant problems, arranging tasks and actively taking comprehensive measures.

Efforts were made to organize commercial banks in strengthening management over the counter, and let the people feel relieved using banknotes. In 2009, the PBC convened two meetings of commercial banks on cracking down on counterfeit currency to request commercial banks making commitment to public so as to let the people feel relieved using banknotes. With active coordination and organization, twelve commercial banks including the ICBC made commitment to public that they would not mis-accept or mis-pay counterfeit banknotes. In line with the topic of “letting the people feel relieved using banknotes”, branches and sub-branches of the PBC organized commercial banks under administration to take various measures as public education, employee training, equipment promotion and institutional examination etc. Meanwhile, the PBC conducted comprehensive review on security technology of banknote processing equipments of commercial banks, and conducted specific examination on RMB banknote identification. From the May to October, the PBC further standardized counterfeit banknote capture and identification in financial institutions by carrying out nationwide examination.

The PBC cooperated with public security organs to enlarge the cracking down on crimes related to money counterfeiting, and received effective results. In 2009, public security organs nationwide carried out specific action called “09 Action” on cracking down on crimes related to money counterfeiting. In accordance with this action, the PBC put into full play the role of joint conference through active coordination with departments from the court, procuratorate, industry & commerce, rail and transport in the detection, prosecution, judgment of criminal cases related to money counterfeiting and smuggling suppress, examination and seizing of counterfeit banknotes, and jointly studied the application of legislations in cracking down on crimes related to money counterfeiting. Meanwhile, the PBC adopted various measures to cooperate with the public security organs in detection of criminal cases related to money counterfeiting, established fast and convenient information exchange channel on counterfeit banknotes, enhanced seizing and transfer of clue on counterfeit banknotes, which provided effective support to public security organs in smooth resolution of related cases.

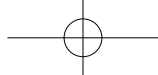
Efforts were made in the enhancement of guidance on public opinion and conduct in-depth anti-counterfeiting money education. The PBC conducted in-depth anti-counterfeiting money education and



disseminated to public the features of RMB banknotes and counterfeit money in various ways. By the end of 2009, about 20 000 outlets in the network of anti-counterfeit banknotes had been set up in urban areas, and 560 000 outlets had been set up in rural areas, with more than 600 000 volunteers. On the basis of daily dissemination and centralized public education nationwide, the PBC strengthened communication with the media and enhanced publication through press release, TV interview and topical interview, and utilized the network in comprehensive introduction of knowledge on anti-counterfeit banknotes and on-line Q&A of security features.

The PBC strictly managed the research and development of printing and minting technology of RMB banknotes, improved production and management of banknote counters and examiners, and further improved the security technology of RMB banknotes. The PBC organized the China Banknote Printing and Minting to carry out several projects tackling problems related to science and technology, and to conduct studies on supporting technology so as to promote the printing technology of RMB banknotes. At the same time, in view of the quality problem of banknote counters and examiners under public attention, the PBC cooperated with the State Administration of Quality Supervision, Inspection and Quarantine to conduct investigation, test and relevant study on banknote counters and examiners, and organized spot test on security identification function of banknote counters and examiners over the counter of 16 commercial banks throughout Hangzhou, Shaoxing, Nanchang, Shijiazhuang and Beijing. By acquisition of abundant first-hand information, it helps improve the actual security identification technology of banknote counters and examiners, and provides material support to standardize and formulate technology criterion for banknote counters and examiners used in banks.

Training programs on anti-counterfeit money skills were carried out in various levels, development of anti-counterfeit money information system was sped up, and the base of anti-counterfeit money was steadily intensified. In line with the guiding principle of “differentiating, step by step, individualized, from point to area”, the PBC enhanced training on officials over the counter. The PBC Headquarters, training nearly 54 000 relevant officials, provided 480 training courses on anti-counterfeit money. On-line training system on anti-counterfeit money was launched to make regular and systemic training on anti-counterfeit money to relevant officials in branches and sub-branches of the PBC. In December 2009, the anti-counterfeit money information system was launched in pilot operation in the official network of the PBC, which builds up a platform of anti-counterfeit money information among the PBC, commercial banks and public security organs, provides scientific evidence to the decision-making in anti-counterfeit money, and prepares basic materials and information support for the conduct of anti-counterfeit money for relevant departments.



STATE TREASURY MANAGEMENT

In 2009, the PBC processed collections of 6 812.6 billion yuan as general budgetary revenue and 1 856.4 billion yuan as budgetary funds revenue, issued government bond 1 825.9 billion yuan. The PBC disbursed 7 523.2 billion yuan as general budgetary expenditures and 1 459.7 billion yuan as budgetary funds expenditures, redeemed government bond 939.7 billion yuan.

Speedily spread electronic state treasury information system, remarkably strengthen service support capability

In 2009, the Treasury Information Processing System (TIPS)(a national transversal network linking together the financial sectors, taxation offices, treasury sectors and banks) was expanded to 28 provinces (including municipalities), 11 435 tax collection authorities, 1 454 banking branches and 3 116 treasury sectors. TIPS handled a total of 36.3663 million taxation transactions with a total amount of 936.2 billion yuan. The treasury sectors and the financial authorities in 15 provinces (including municipalities) started to share information of tax revenue through TIPS. The treasury expenditure transactions were implemented through TIPS in Hainan, Hubei and Beijing. The trans-department inter-networking system between the PBC and the Ministry of Finance and the paperless business processing system were put into operation. Paying taxes by bankcards was expanded further. With the rapid promotion and application of TIPS, the treasury receipts and expenditures were processed without paper and the information was shared among the financial sectors, taxation offices, treasury sectors, banks and taxpayers. Taxpayers had more options to pay taxes: by internet, in taxation offices, using bankcard, etc. The quality of treasury services were promoted greatly, the transfer of treasury funds was speeded up and the management of treasury funds was improved significantly. The Treasury Centralized Balancing System (TCBS) which was expanded into 5

provinces optimized and re-built the business process and centralized the diffusive treasury accounting data and laid a solid foundation for fully promoting treasury service and further deepening the reform of government funds management system. A breakthrough was achieved in the construction of Treasury Management Information system (TMIS). The Certificate Bond Management Sub-System was tested on a nation-wide scale. The Statistical Analysis and enterprise Tax Inquiry Sub-System was planned to function in 2010. The official operation of TMIS would make it possible to rapidly collect, process and present the information of treasury receipts and expenditures which will strengthen government funds management and promote effective coordination of monetary and fiscal policy making.

Pay more attention to People's livelihood, constantly increase state treasury's capability to support the economic development

All the measures which included full utilizing the China Advanced Payment Systems (CNAPS) and the State Treasury's computer systems, cooperating with local governments, finance authorities and social security departments, optimizing the business process of single treasury account as well as reducing the steps of funds transfer and directly transferring government funds to the final beneficiary's account, played an important role in maintaining the social stability, promoting the social harmony and safeguarding People's interests as well as supporting the economy development. By the end of 2009, 49 sub-treasury offices in prefecture-level cities and 513 sub-treasury offices at county (county-level cities) level in 30 provinces handled the direct payments of 8.72 million transactions with a value of 5.771 billion yuan, which involved some 180 subsidy programs granted by governments. According to the objectives of treasury single account reform, with the support of advanced technical means, such as TIPS, the management extent



of treasury receipts and expenditures would be expanded to all the government's financial funds. By the year-end, the revenue from the social security premiums in 17 provinces was transferred into the State Treasury account. Some treasury authorities centralized the collection and expenditure of extra-budgetary funds, which provided the governments with the conveniences to master the government overall situation of receipts and expenditures. The management mechanism of refunding export taxes was innovated and optimized, to make export enterprises get tax refund faster, which supported the local economy development and helped the enterprises recover from the crisis.

Strengthen treasury supervision, construct security shield for treasury funds

The construction and enforcement of treasury internal control system was enhanced in order to safeguard the security of treasury funds. *The Guidelines on Site Inspection of Treasury Accounting Operation* was distributed to the treasury sectors at all levels to conduct the site inspection on the treasury accounting business. The treasury sectors inspected the treasury agents, the tax collecting offices and the commercial banks that handled some treasury transactions as the agent of treasury sectors, took rigorously sanctions against the behavior of holding-back, retaining, and misappropriating the taxpayer's money as well as illegally opening transitional bank accounts for tax collection offices. A large amount of illegal receipts and expenditures and refunds were blocked up. The security and integrity of treasury funds were guaranteed.

Tamp the foundation for statistical analysis, strengthen the treasury's role of counselor

The research on treasury funds was reinforced. The analysis report of treasury funds was accomplished every ten days. Based on the treasury cash flow data, the monographic research on the hot and important issues in the economic and financial field and in conducting the fiscal and monetary policies was actively developed

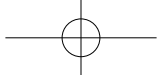
in order to provide the relevant leaders and departments with the information, helping them in macro-policy decision-making and tackling the financial crisis.

Develop steadily treasury cash management, promote coordination of two major policies

Both the volume and frequency of the operation of central government cash management were increased significantly. In 2009, 309.64 billion yuan was deposited into commercial banks as time deposit through 11 auctions. The realized interest income was 1.761 billion yuan. The performance of government cash management was increased and the experience was accumulated to smooth out fluctuation of treasury cash flows that might lead to the impact on monetary policy operation; the local government cash management operation was preparing. The Tentative Regulations on Local Government Cash Management was drafted. The prediction of treasury cash flows was actively developed. The exploring for cash flow prediction and rolling prediction mechanism set up a solid foundation for comprehensive government cash management development.

Innovate in government bonds management, implement satisfactorily issuance and redemption of government bonds

In total, 5 issues of Government Certificated Bonds with an amount of 200 billion yuan and 8 issues of Government Electronic Saving Bonds with an amount of 151.111 billion yuan were implemented and the redemption of government bearer bonds and collection orders with an amount of 7.708 million yuan was handled, which provided an active support to the positive fiscal policy. The research on government bonds market was strengthened. The issuing method of underwriting electronic saving bonds was innovated, 20 billion yuan book-entry T-bonds with a mature period of 50 years was issued for the first time. The site inspection and training of the bonds underwriting agents were increased significantly. Advertising and insuring treasury bonds in the countryside area were enhanced greatly.



DEVELOPMENT OF BANKING IT INFRASTRUCTURE

Construction of two-tiered data center being smoothly advanced

According to the overall arrangement of “Three Centers at Two Locations”, the infrastructure construction of the data centers was simultaneously pushed forward. The requirements analysis and design for the data center at Daoxiang Lake were accomplished. The *Guidelines on Construction of Provincial Data Centers (2009-2010)* was released and the construction of provincial data centers was in full swing. The resource conformity strength in both software and hardware was increased, and the total number of application systems deployed on a multi-application loading platform was increased to 19, including 9 newly deployed application systems, such as the Enterprise Booming Investigation Information System as well as the Flow of Funds Accounts System, etc. The Integrated Service Operating Framework was initially built up to centralize the functions of statistics processing, data analysis and information survey, etc. The *PBC Software Development Specifications-constraints on Head Quarter Data Center System Development* was formulated to increase the utilization efficiency of software and hardware resources.

Remarkable achievements in the construction of application systems

On July 6, the RMB Cross-border Receipt and Payment Information Management System was put into operation. Based on the knowledge of the economic agent's cross-border receipt and payment and the information on customs declaration for entry goods, it was accomplished to monitor the authenticity in the process of settling RMB cross-border trade between domestic banks and economic agents, which facilitated to timely discover and correct the illegal activities in

the process. On October 28, the Electronic Commercial Draft System went live and provided a national circulating platform for the commercial drafts and short-term borrow/lend financing needed by the medium-sized and small enterprises. The State Administration of Foreign Exchange (SAFE) popularized the Foreign Investment Model of Foreign Direct Investment Information System and implemented a comprehensive supervisory management and on-line manipulation. The first generation of Foreign Exchange Transaction System and the first version of Domestic Currency Transaction System were put into operation, which improved the automatic level of China's foreign exchange transaction. The *Central Bank Financial Accounting Reconciliation System* was popularized on a nationwide scale, which made the electronic reconciliation between the PBC and the account-holding institutions become true, and the frequency of reconciliation was increased from once per month to once a day. The TV Meeting System was successfully upgraded. HDV meeting between the PBC Head Office and its provincial branches as well as SDV meeting between provincial branches and prefecture-level sub-branches were implemented, and the requirements of inter-region exchange and coordination among the PBC branches/sub-branches were satisfied. Following CNAPS and the Social Credit System, the PBC built up application framework with Treasury Information Processing System (TIPS), Treasury Management Information System (TMIS) and Treasury Centralized Booking System (TCBS) as the core line for treasury and relevant business. This framework provided a strong support to the PBC for fulfilling its treasury service function.

Breakthrough progress was achieved in data sharing



By means of the construction of “Jin Hong” Project (National Macro-Economy Management Information System), the financial data in banking and non-banking sectors was further integrated, and the data sharing among the various departments and the data analysis were strengthened significantly. The Construction of the financial data-sharing pool and the financial operation analysis system were accomplished. The financial shared index system was compiled. A total of 6 departments in the PBC were able to visit the data sharing pool. There were about 17 million data entries, which were classified into 31 categories and involved in various areas of economic and social development and provided a strong support to financial macro-policy decision-making. An operating mechanism and technology roadmap were successfully searched out for the national centralized database to serve the local branches. TIPS data cube was distributed to the branches at various levels. 23 provinces were able to use the TIPS data cube for inquiring data of treasury receipts and expenditures within their own jurisdictions for making statistical analysis.

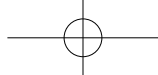
Information systems being operated safely and smoothly

The up-gradation of Electronic Certificate Registration Authority System was accomplished to implement the remote renewal of a digital certificate and user authentication, increasing the PBC management level of digital certificate. The Illegal Connection to the Internet Surveillance Management System was implemented to centrally discover, control and regulate the illegal activities in surfing the Internet. The up-gradation of Intra-net Anti-virus System, the deployment of Network Access Control System as well as the deployment of Security Management Log System were all accomplished, and the ability of defending security of the PBC desk terminals was increased entirely. The system construction was further strengthened. The following rules and regulations were formulated: the *Information Safety Examination Management Procedures*, the *Guidelines*

on Electronic Authentication of Information System, the *Information Security Event Reporting System* and the *Internet Electronic Authentication Management Tentative Regulation*. Based on the trial operation in the PBC Head Office, the *Construction of Information System Safety Specification* and the *Intranet Electronic Authentication Management Tentative Regulation* were revised, and the *Test Outline for Removable Storage Media Application Security Management* was developed. The Construction Planning Disaster Recovery Back-up Facilities for the PBC important application systems and the Overall Solution for Shanghai Data Center Construction were accomplished. The *Guidelines on Information System Disaster Back-up Construction* was formulated. The financial Information Management Center completed the phase one of the operation and maintenance supervision project. The newly going-live integrated operation and maintenance supervision system combined the host computer monitoring with the network monitoring in order to realize an integrated operation and maintenance for the host computer and the network, and the ability to actively discover and locate the troubles was enhanced, which provided effective and efficient technology means for ensuring the safe and smooth operation of the network and information systems. With the efforts of all of the PBC's technical personnel, no major information safety accidents happened in 2009 and the tasks to guarantee the information safety during the “two session” period and the celebration period of the sixtieth anniversary of the founding of the People's Republic of China.

Positive results achieved in bankcard business

The construction of bankcard and e-payment standard architecture was improved. In total, 4 bankcard industry standards, including *Bankcard Substrate Specifications*, were published. The multiple business applications of financial IC card were energetically pushed forward. The pilot project of financial IC card multiple business applications in the city of Ningbo showed a basic success and created a win-win mechanism for all participants and



explored a new way by which the financial IC card could serve both citizen and municipal administration as well as the integrated development. The issuance of armyman security card was actively pushed forward. The PBC and the General Logistics Department of the People's Liberation Army jointly released the *Guidelines on Banking Business Application of Armyman Security Card*. As the first batch of pilot banks, the ICBC, ABC and CCB jointly issued armyman security cards and achieved the goal of "one card per armyman" and "no need to change card when relieving a garrison", and the cardholder enjoyed the multiple preferential banking policies. After the special bankcard service for the migrant workers, this approach was another typical case that the financial sector digs deeper the business applications to serve the society.

Financial informatization being promoted coordinately

The efforts to increase financial information security were intensified. The *General Requirements on Internet Banking Security Management (for trial implementation)* was published, and the nationwide safety inspection on all the 66 internet banking systems was organized. It was keenly promoted to establish a joint meeting system to clearly define the supervisory responsibilities. The *Suggestions on Improvement of Financial Information Security Management Mechanism* and the *Institution of*

Financial Information Security Joint Meeting System were drafted out for the "one bank and three commissions" (the PBC, CBRC, CIRC and CSRC). In order to specify the reporting of security information incidents, the *Reporting System on Financial Institution Information Security* was drafted out. In order to join forces with the departments in charge of the state information security and to utilize the preponderance of national resources for the important industry security, the *Trans-department Coordination Pre-arranged Plan for Financial Information Security* was formulated. The studies on Chinese Financial Informatization Development Strategy in the 12th Five-Year Plan were carried out, which was one of the important research projects. The study and formulation of the *Framework for Financial Standardization System* were started, and the following standards were published: 8 national financial standards including *Personal Finance: Requirements on Personal Financial Adviser*, and 21 financial industry standards, including *Credit Data Element: Credit Rating Data Element*. The achievement appraisal and reward assessment were organized for the annual banking science and technology development award 2009. The 8th IT Director General Meeting under the EMEAP was successfully hosted by the PBC. The international exchange and cooperation in the area of central bank informatization were strengthened constantly.



REGULATION OF CREDIT INFORMATION SERVICE INDUSTRY AND DEVELOPMENT OF CREDIT INFORMATION SYSTEM

Social credit system develops at a steady pace

In 2009, guided by the order of the State Council, the PBC actively played its role as the leading ministry of the Ministerial Joint Conference on the Establishment of Social Credit System and pushed forward credit building in various industries and localities. Efforts have been made in this regard include: (1) The PBC convened the second session of the Ministerial Joint Conference on the Establishment of Social Credit System. At the conference, the PBC notified the progress of ten key work projects assigned by the State Council and submitted work plans for the next step. It emphasized that ministries should, in accordance with the requirements of the State Council, strengthen coordination and cooperation in developing Social Credit System. (2) Based on the progress made in previous work, the PBC strengthened coordination with other member ministries. It held talks separately with National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Human Resources and Social Security, General Administration of Customs, General Administration of Commerce and Industry, General Administration of Quality Supervision, Inspection and Quarantine to understand their progress in developing credit system, challenges encountered and assistance needed. Then the PBC worked out work plans and detailed arrangement for the next step of work and solicit member ministries' comment on these plans. Currently, *Notion on Accelerating Credit Development in Industries* has been drafted, which is the result of efforts at this stage. (3) PBC branches and sub-branches also took active part in local credit building. Guided by PBC' headquarter, they adopted innovative methods and new mindset and fully consider the realities of various localities. Their efforts

has been acknowledged and supported by provincial governments. Currently, 14 provinces, including Shandong, Liaoning, Hubei, Guangdong, Hunan, Qinghai, Hainan, Guangxi, Hebei, Jilin, Xinjiang, Henan, Yunnan, Gansu, have appointed local PBC branches as the leading institution of the Joint Conference on the Establishment of Local Social Credit System.

Legislation and standardization development in credit service industry made promising progress

In 2009, *Regulation on Credit Information Service* (hereafter referred as the Regulation) was included in the Tier 1 Legislation Work List by the Legislative Affairs Office of the State Council. In order to make the Regulation be enacted as soon as possible, the PBC did a lot of work in law drafting and submitted the Regulation (draft edition) to the State Council for approval in July 2009. In October 2009, the State Council formally published the Regulation (proposal edition) for public comments. The general public gave active response to the proposed Regulation. 32 ministries and research institutes under the State Council, 14 local governments, 6 commercial banks and 11 domestic and foreign credit bureaux gave their feedbacks to the Regulation. Currently, the PBC is cooperating with the State Council to compile and consider these feedback ideas and will issue the Regulation as soon as possible. Meanwhile, in order to prepare for the promulgation of the Regulation, the PBC has improved the credit rating regulation system and initiated series of research on the supervisory system of credit rating market, including research on the market entry and exit of credit rating agencies, credit rating operations, information disclosure, punishment on law-violating behaviors, etc. Besides, it worked out



initial concrete measures to regulate the industry. The PBC also pushed forward standardization of the credit information service industry. In 2009, the PBC issued two industry standards: *Data Elements for Credit Information Service~Data Elements of Credit Rating* and *Credit Data Exchange Format~Data Collection Format for Default Rate of Credit Rating*. Six industry standards, such as *Data Elements of Enterprise Information Service System* and *Data Elements for Credit Information Service~Data Elements of Credit Rating* were included into the National Standard Development Plan. The PBC was preparing to establish Credit Data Element Registration System and took part in the working group of international credit reporting standards.

Credit information service industry supervision and market cultivation have been further strengthened

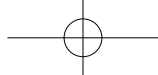
First, supervision of the credit information service industry has been strengthened. The PBC issued *Notice for Branches and Sub-branches to Strengthen the Regulation over Credit Rating of Interbank Bond Market* to carry out research and provide guidance for credit rating. It issued *Plan for the Examination of Credit Rating Agencies in the Credit Market and Interbank Bond Market* and organized branches and sub-branches to examine credit rating agencies located within their regions. They required credit-rating agencies to stop misbehaviors uncovered in the examination before the deadline and suspended the business license of some credit rating agencies with serious problems. These efforts have standardized and disciplined the rating market. PBC's headquarter organized branches and sub-branches to examine ways commercial banks dealing with disputes over consumer credit reports and is working on how to improve Regulations regarding consumer credit report dispute handling. Second, credit information service market has been further cultivated. The PBC focused on cultivating credit rating market and use the system of key liaison branches for credit rating to encourage branches

to explore new methods & models in credit information service market. These efforts have been paid off. By the end of 2009, there were 85 rating agencies in China, with 2 463 rating professionals working in the industry. Their annual revenue reached 829.7 million yuan, of which 681 million yuan was contributed by the rating business, up by 20.74 percent, 40.76 percent and 38.14 percent respectively than the previous year. They conducted ratings over 811 bond issuance projects and 45 thousand credit market entities, up by 35.6 percent and 3.1 percent respectively than the previous year.

SME credit system and rural area credit system building deepens

First, the PBC has issued guidance and established Key Liaison Branch System to guide SME and rural area credit system building in various regions. In April, the PBC issued *Guidance on Pushing Forward Rural Area Credit System Building* and *Notice on Identifying Key Branches for the Work of Establishing SME and Rural Area Credit System Building*. Second, the PBC accelerated the establishment of electronic credit files, strengthened the credit awareness of SMEs and rural households and set up a positive credit incentive mechanism to give more credit support to SMEs and rural households. Third, the PBC drew lessons from experience gained in SME credit system and rural area credit system building and shared among various regions. At the end of 2009, an on-site work conference was held in Nantong, Jiangsu Province. At that conference, issues on how to develop SME credit system in the next step were deeply discussed and ideas were fully exchanged. Fourth, the PBC conducted extensive investigation and research on some new issues and conditions coming up in the process of SME and rural area credit system development and worked out relevant solutions based on realities.

Due to PBC's efforts, financing difficulties facing the SMEs and rural households have been pragmatically and greatly mitigated. By the end of 2009, 173 thousand



SMEs had received credit commitments from banks. 92 thousand SMEs got bank loans and 51 thousand of them received loans in 2009. The credit balance was more than 1.5704 trillion yuan, 820 billion yuan was granted in 2009 and the total sum of loans was 2.6374 trillion yuan. Among the rural households with credit files, 66.92 million got bank loans with the total volume of over 2.2 trillion yuan and the credit balance of 958.2 billion yuan. The quality of these loans has been further improved.

Benefit brought by the credit information database

First, the Credit Information Database contributed to the improvement of commercial banks' credit management and the growth of their credit business. Currently, the enterprise and consumer Credit Information Database contain credit files of over 16 million enterprises and 669 million people respectively. Commercial banks can share their credit information of borrowers on this information platform. By using the service provided by the Credit Information Database, commercial banks changed their management mindset, ways and business procedure, saved credit information investigation expenditure and enhanced credit application processing efficiency. Credit risks were effectively prevented and credit business grew rapidly. All these are beneficial to the growth of consumer credit businesses and the solving of SMEs' financing difficulties. In 2009, loans granted by financial institutions amounted to 9.6 trillion yuan, of which 1.8 trillion yuan was contributed by consumption credit business and 3.4 trillion yuan by SME loans, increasing by 48.6 percent or 30.1 percent respectively than the

previous year. Second, using the Credit Information Database enabled financial institutions to enhance their capability to manage credit risks, which led to more stable and healthy financial development. Currently, all banking financial institutions, some micro-loan companies and auto-finance companies have access to the credit information system. Inquiring the Enterprise and Consumer Credit Information Database has become an inevitable step in their credit application processing.

Public communication campaign on credit information database strengthens and social awareness on creditworthiness improves greatly

When commercial banks were actively implementing the favorable house loan policy of 70 percent off interest rate and activities were organized to celebrate the March 15th Consumer Right Protection Day, PBC branches and sub-branches echoed by organizing various education activities to promote people's acknowledgement of credit information system and guided the masses to value their credit files. Besides, the PBC carried out large-scale activities, such as Credit Reporting Knowledge Education Week and the second Credit File Caring Day theme activities across the country to extend the influence of credit information service. These activities have greatly enhanced people's awareness of the importance of their creditworthiness. More and more people began to care their credit history. In 2009, the number of inquiry made by consumers themselves reached 766 thousand times, a great increase than those of previous two years.



ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM (AML/CFT)

China's AML/CFT work in the year of 2009, with the financial crisis as the general background, achieved strengthened strategic programming and coordinated planning, improvement in judicial system concerning ML/FT offences as well as AML/CFT preventive measures of the financial sector, and enhanced effectiveness in combating ML/FT activities by efficient transaction monitoring and investigation.

Introducing the first national AML/CFT strategy

In order to coordinate more effectively the AML/CFT efforts at the national level, the PBC has been devoted to working on China's national AML/CFT strategy as the leading agency since 2007 in line with the proposal of the Joint Ministerial Co-operational Mechanism Conference (JMCMC). The *National AML/CFT Strategy of China* (discussion paper) was drafted by the PBC with contribution of all JMCMC members, and was adopted by the 5th JMCMC meeting in December 2008. The *National AML/CFT Strategy of China (2008-2012)* was published by the Secretariat of the JMCMC on December 30, 2009 after obtaining approval of the State Council.

Based on analysis of China's current AML/CFT work and opportunities and challenges it faces in the future, the Strategy lays out the strategic priorities of China's national AML/CFT efforts within the period of 2008-2012, and provides the guiding conception, general aim, principles and steps of implementation, specific goals and initiatives that are designed to adapt to current situation of China. The introduction of the first National AML/CFT Strategy will contribute to the efforts of coordinating the AML/CFT work at the national level and establishing consensus among agencies responsible for AML/CFT through more efficient collaboration. The Strategy will

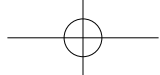
play a big part in improving the overall effectiveness of China's AML/CFT work in the long run.

Issuing judicial interpretation on ML/FT offences and improving criminal legislations on ML/FT

Amendment VII to the Penal Code was passed by the 7th meeting of the Standing Committee of the 11th National People's Congress in February 2009, which extends Article 312 to cover corporate criminal liability as of "the offence of covering up or concealing the nature or source of the illegally obtained proceeds and the gains derived there from" by adding a sub-clause under this Article. On April 3, the *Guidance on AML/CFT to Bankcard Associations and Clearing Houses* was issued by the PBC and came into effect. The *Lottery Regulation* promulgated by the State Council on May 14 prescribes that "Lottery issuers and lottery sellers shall establish risk management system and suspicious funds reporting system", which is the first provision on AML/CFT obligations of the lottery sector. On September 21, the PBC issued the *Guidance Paper to Payment and Settlement Organizations on Anti-money Laundering and Combating the Financing of Terrorism*, and started its AML/CFT supervision of payment and settlement industry. The *Interpretation of the Supreme People's Court on Several Issues Pertaining to the Specific Application of Law in the Trial of Money Laundering and Other Criminal Cases* promulgated by the Supreme People's Court on November 10 addresses some key issues in criminalisation of ML/FT activities.

Continuing to improve AML supervision

The PBC has developed a program to rate financial institutions in terms of AML/CFT, and has taken initial



steps towards a classified supervisory framework based on AML/CFT ratings of financial institutions. In line with the principle of the risk-based approach (RBA) in AML/CFT supervision, on-site inspections are adapted to focus on financial institutions with high ML/FT risks, records of involvement in ML/FT or noncompliance rather than expanding institution coverage of inspections irrespective of risk factors. Nevertheless, importance has been attached to inspections concentrating on specific products or businesses, such as cash transactions, financial businesses conducted on-line and wholesale insurance businesses, in which more ML/FT related cases have been detected. With efforts in the above two aspects, the overall quality of on-site inspections has been improved. Additionally, cooperation mechanism of AML/CFT in the financial sector, especially information sharing mechanism among agencies has been enhanced. The AML/CFT policy is enabled to be transferred through broader channel with reification of the existing periodic AML/CFT information sharing mechanism among the PBC, the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), and the China Insurance Regulatory Commission (CIRC), as well as establishment of AML/CFT dialogue mechanism between the PBC and financial institutions.

In the year of 2009, the PBC and its branches conducted on-site inspections on 3 364 financial institutions, among which 282 were sanctioned for noncompliance, and 108 financial institution staff members were punished.

Assisting investigations of major ML/FT related cases by improving quality of intelligence

In accordance with the RBA principle, the PBC concentrates more on quality of key STRs filed by financial institutions, which indicates a policy shift from quantity-focused to quality-focused, and useless transaction reports filed by financial institutions have

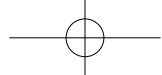
begun to decrease. In order to safeguard celebration of the 60th anniversary of People's Republic of China, the PBC operated a special CFT campaign nation wide from July to December of 2009, and secured the celebration by urging financial institutions to strengthen CFT program and assisting anti-terrorism authorities in preventing and fighting against domestic terrorist activities.

Based on analysis of suspicious transaction clues received, the PBC carried out 1 082 administrative AML investigations in the year of 2009, among which 654 were reported to the law enforcement agencies, and assisted investigations on 970 ML/FT related cases initiated by the law enforcement agencies.

Broadening and deepening AML/CFT international cooperation

China has played an active role in the Financial Action Task Force (FATF) activities. Reports were submitted to the FATF to elaborate latest progress made to improve China's AML/CFT regime, and work has been started on China's removal from the regular follow-up process. With the approval of the State Council, China reactivated membership in the Asia-Pacific Group (APG) in July 2007, which increases China's influence on the international AML/CFT forum. In December the 11th Plenary of the Eurasian Group (EAG) was hosted by China in December 2009. Furthermore, the active participation in international and domestic cooperation mechanisms has helped AML/CFT work to support efforts in other related areas, such as implementation of financial sanctions imposed by UNSCRs, prevention of corruption, prevention of capital flight, regulation of overseas NGOs, etc.

So far, the China Anti-money Laundering Monitoring and Analysis Center (CAMLMAC) has signed Memorandum of AML/CFT cooperation with 16 Financial Intelligence Units (FIUs) of other jurisdictions, which has facilitated broadened bilateral cooperation in ML/FT financial intelligence.



THE EXCHANGE AND COOPERATION WITH THE INTERNATIONAL COMMUNITY, AND WITH HONG KONG, MACAO AND TAIWAN

In 2009, the financial crisis continued to affect the world economy. China faced highly complicated economic and financial situations both at home and abroad. Relationship with the international community in dealing with financial issues encountered new challenges. The People's Bank of China (PBC) participated in the international financial crisis management through multiple channels and continued to enhance the exchange on financial issues with major economies. It promoted the formulation of international financial rules, and played a guiding role in making the international financial cooperation more practical.

Participate in the international financial crisis management in an all-round way

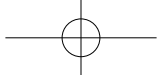
First, the PBC actively took part in the G20 Summit. After the first meeting in Washington in November 2008, the G20 Summit was held for the second time in London in April 2009. The PBC cooperated closely with relevant departments and focused on the specific tasks of the four working groups, putting forward proposals on further reforming the international monetary system, improving the governance structure of the International Monetary Fund (IMF), and increasing the representation and voice of developing countries. It strived to build China's image as a large and responsible country and protected the interest of developing countries in the process of making international financial rules. In September, the third G20 Summit took place in Pittsburgh, USA. The PBC played a significant role in the preparatory work. It actively participated in events organized by the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS), took a leading role in formulating and implementing the work program regarding China's participation in the Financial Sector Assessment Program, and promoted the quota reform of international financial institutions. The PBC actively supported the IMF's effort on quota increase, which would not only increase the IMF's resources, but also strengthen the voice of

developing countries in the IMF.

Second, China became a member of the FSB. In April, the Financial Stability Forum underwent a successful transformation, after which it became known as the FSB. After rounds of consultation and mediation, the PBC, the Ministry of Finance and the China Banking Regulatory Commission, as representatives of China, all took a seat in the FSB. After enlargement, the FSB's membership expanded to all G20 members while previously it mainly included a few countries and international financial centers.

Third, China joined the BCBS. In May, the BCBS issued a statement to all members, announcing its decision to further expand membership to include all G20 members, Hong Kong SAR of China and Singapore. The accession into the BCBS was one of China's key steps in implementing the outcomes of the G20 Summit in London, which would be conducive to improving the representativeness of the BCBS.

Fourth, the PBC actively responded to requests for mutual aid from the international community. As the international financial crisis continued to worsen, the PBC responded actively to the request from other economies for currency swaps, signing six bilateral local currency swap agreements totaling RMB 650 billion with the central bank or the monetary authority of South Korea, Hong Kong, Malaysia, Indonesia, Belarus and Argentina.



Strengthening the exchange with major countries through a variety of mechanisms

First, the PBC participated in the first China-US Strategic and Economic Dialogue (S&ED). As a new dialogue mechanism established by China and the US, the S&ED consists of economic and strategic dialogues. The first S&ED was held in Washington in July. The PBC, as a permanent member of the mechanism, has played an active role. During the Dialogue, China and the US exchanged views mainly on ensuring sustainable and balanced economic growth, building a robust financial system, trade and investment, and the international financial institutions, reaching agreement on 29 outcomes.

Second, the PBC promoted the cooperation with the European Central Bank (ECB) through the PBC-ECB Working Group Mechanism. In November, the PBC leader held talks with the troika(?) of the euro zone (namely, Jean-Claude Juncker, Chairman of the Eurogroup; Jean-Claude Trichet, President of the ECB; and Joaquin Almunia, European Commissioner for Economic and Monetary Affairs) in Nanjing. The two sides had in-depth exchange of views on issues such as balanced growth, global exit from the stimulus plans and the exchange rate, which deepened mutual understanding.

Third, the PBC took part in the China-UK Economic and Financial Dialogue (EFD). In May, the second EFD was held in London. Deputy Governor of the PBC Hu Xiaolian accompanied Vice Premier Wang Qishan to the Dialogue, which ended up with 23 policy outcomes in four areas.

Fourth, the PBC continued to enhance bilateral cooperation with other countries. It participated in various mechanisms such as the China-Japan High-level Economic Dialogue, the Sino-Russian Financial Cooperation Sub-Committee and the Sino-Kazakhstan Financial Cooperation Sub-Committee, which boosted substantially bilateral cooperation on financial issues.

Continuously enhance cooperation with international

financial institutions

First, the IMF quota reform was promoted vigorously. The G20 Summit held in Pittsburgh in September witnessed a political consensus on the objective of the IMF quota reform, namely, a shift in quota shares to dynamic emerging economies and developing countries of at least five percent through transferring quota shares from over-represented to underrepresented countries. In 2009, China signed an agreement with the IMF, according to which it would buy up to USD50 billion worth of IMF bonds. In November, parties concerned reached a consensus on the enlargement of the IMF's New Arrangements to Borrow and expanded it to up to USD600 billion.

Second, cooperation with the Bank for International Settlements (BIS) was deepened. The PBC has honored its commitments in a practical manner. It sent officials to attend Board of Directors meetings and Audit Committee meetings so as to participate in setting international standards and codes more thoroughly and comprehensively, bringing effective cooperation between China and the international community to a higher level.

Third, the PBC took an active part in events held by the Commission on Growth and Development (CGD) of the World Bank. The CGD not only provides a platform for the PBC to strengthen exchanges with other countries on experience in addressing issues such as the relationship among reform, development and stability, but also creates an opportunity for the PBC to cooperate and communicate with both developed and developing countries. In November, a seminar jointly sponsored by the PBC and the CGD was held in Beijing.

Fourth, the PBC actively participated in G30 events. In 2009, the PBC leader attended the G30 Spring Plenary. Participation in events initiated by the G30 has boosted mutual understanding and communication between China and the international community.

Safeguard financial stability in Asia



First, cooperation with the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) was deepened. Acting as an active coordinator, the PBC called on all EMEAP members to combat the financial crisis with joint effort. It built up the regional economic and financial monitoring network and urged all members to take joint actions when necessary, playing a significant role in boosting market confidence and safeguarding financial stability in the region.

Second, the multilateralization of the Chiang Mai Initiative (CMI) saw new achievements. In late 2009, all parties concerned reached a consensus on the content of the Chiang Mai Initiative Multilateralization Agreement (CMIMA) and signed it. China and Japan became the biggest contributors. Hong Kong was granted access to the foreign exchange reserve pool. The CMIMA came into effect on March 24th, 2010.

Third, the Tripartite Governors' Meeting (TGM) mechanism among the PBC, the Bank of Japan, and the Bank of Korea was given a full play. To further enhance cooperation and communication and to better maintain economic and financial stability in the region, central bank governors from China, Japan and South Korea attended the first TGM in July. The three countries improved exchange of information and policy coordination through the TGM, making joint contributions to achieving robust, sustainable and balanced economic growth in the region.

Play an active role in multilateral development financial institutions

First, breakthroughs were made in the work on China's accession into the Inter-American Development Bank (IDB). After going through relevant legal procedures, China was officially recognized as the 48th IDB member on January 12th. Currently, the two sides have started discussions on substantive cooperation.

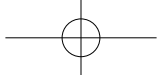
Second, the PBC supported the resource replenishment by the African Development Fund (ADF). Since its accession into the African Development Bank (ADB),

the PBC, as a representative of China, has never failed to make contributions from the 4th to the 11th ADF (ADF-11) Resource Replenishment, which has boosted considerably Africa's capacity for poverty alleviation and development. To help African countries deal with the impact of the financial crisis, China made the third round of contribution to the ADF-11 Replenishment in early 2010. China supports the idea of expediting consultations for the ADF-12 Replenishment and will earnestly participate in it so as to continuously make every possible contribution to poverty alleviation and development in Africa.

Continuously expand exchange and cooperation on financial issues with Hong Kong, Macao and Taiwan

First, the RMB business was pushed forward steadily in Hong Kong. To support the implementation of the pilot RMB settlement in cross-border trade, relevant departments of the PBC and its branches at different levels cooperated closely and made timely amendments to the *Agreement on the Clearing of RMB Business in Hong Kong*. On June 29th, Governor of the PBC Zhou Xiaochuan and Chief Executive of the Hong Kong Monetary Authority Joseph Yam signed the *Supplementary Memorandum of Cooperation*. On July 3rd, Governor Zhou and Chairman of the Board of Directors of Bank of China Xiao Gang officially signed the revised *Agreement on the Clearing of RMB Business in Hong Kong*, which was to ensure that the pilot RMB settlement in cross-border trade proceeds as scheduled.

Second, financial cooperation with Taiwan was further enhanced. In 2009, the PBC established the steering group responsible for cross-straits cooperation on financial issues, proposed relevant work programs on the basis of research and started negotiations with counterparts in Taiwan within the framework of the Association for Relations across the Taiwan Straits (ARATS) and the Straits Exchange Foundation (SEF). In



April, the ARATS and the SEF inked the *Agreement on Cross-straits Financial Cooperation* (hereinafter referred to as the Agreement) in Nanjing, reaching a consensus on the cooperation in supervising and regulating the banking, the securities and futures and the insurance sectors and on

cross-straits currency settlement mechanisms. The signing of the Agreement has laid the foundation for future cross-straits financial cooperation and development. In December the 15th Cross-Straits Financial Academic Conference was held in Taipei.

BOX

Chiang Mai Initiative Multilateralization

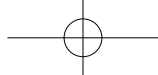
Premier Wen Jiabao put forward the Chiang Mai Initiative Multilateralization (CMIM) for the first time at the 7th Summit of the ASEAN Member States, China, Japan, and Korea (ASEAN+3) in October 2003. Since then, the PBC, as a leading agency on the research of CMIM, together with other agencies including the MOF, MFA and Hong Kong and Macao Affairs Office etc., has been actively advancing CMIM in accordance with the CPC Central Committee and State Council's principles and arrangements on regional financial cooperation.

Developments of CMIM

In May 2000, ASEAN+3 unanimously agreed on the Chiang Mai Initiative to establish a bilateral currency swap agreement network in Chiang Mai, Thailand, putting in place a preliminary short-term financial assistance mechanism. In October 2003, Premier Wen Jiabao put forward "the initiative to multilateralize 'the Chiang Mai initiative'" for the first time at the 7th Summit of the ASEAN+3 to deepen financial cooperation in East Asia and strengthen the region's capacity in crisis self-rescue, which was supported by the ASEAN+3 members.

In 2007, the PBC and the Central Bank of Thailand co-chaired the Working Group on CMIM, and guided members to reach an agreement on achieving CMIM by establishing the "self-managed reserve pool arrangement". The arrangement specified that central banks or finance ministries of each member set aside a certain amount of foreign exchange reserves to establish a regional reserve fund, which then signs agreements with participants to entrust them to manage their contributions in peace time. The use of the reserve fund is centralized during crisis to help members in need to address BOP and short-term liquidity difficulties. This marks a breakthrough in the progress of CMIM.

In May 2008, ASEAN+3 members agreed on the following critical issues in the Finance Ministers Meeting in Madrid: the total size of the reserve pool will be no less than US\$80 billion, the ratio of financial contributions of China, Japan and Korea to those of ASEAN is 80:20, and lending conditionality will be the same as in the Chiang Mai Currency Swap Agreements. The outcome



laid a basis for further work in deliberating on key elements of the reserve pool and drew wide attention.

In February 2009, the ASEAN+3 Special Finance Ministers Meeting In Phuket, Thailand announced *the Action Plan to Restore Economic and Financial Stability of the Asian Region*. All members agreed to increase the total size of the reserve pool to US\$120 billion from US\$80 billion. On May 3, members agreed on key elements of the reserve pool and Hong Kong's joining in the reserve pool. In particular, financial contributions of China (including Hong Kong), Japan and Korea are US\$38.4 billion, US\$38.4 billion and US\$19.2 billion, accounting for 32 percent, 32 percent and 16 percent of the total respectively. Among the 38.4 billion US dollars financial contributions of China, it was agreed that Hong Kong's contribution is US\$4.2 billion (3.5 percent), but its lending is limited to the IMF de-linked portion of 20 percent.

At the end of 2009, members achieved consensus on the components of the CMIM Agreement and largely completed the signing off of the agreement. China met its two key targets set at the beginning: equal financial contributions and voting power to Japan and Hong Kong's access. The CMIM Agreement would enter into force on 24 March 2010.

Importance of CMIM to China

The signing of the CMIM Agreement marked a significant outcome of Premier Wen's initiative on CMIM in 2003. The CMIM Agreement will play an important role in keeping ASEAN+3 as a major channel in regional cooperation and consolidate and improve China's active and favorable position in regional financial cooperation.

Hong Kong joining the CMIM in the name of the Monetary Authority fully reflects the advantages of One Country, Two Systems. Under the precondition of One Country, Two Systems, the central government forcefully supported Hong Kong joining the CMIM, which has solidified its status as a financial center and served as useful explorations for Hong Kong's participation in international and regional organizations.



FINANCIAL ACCOUNTING

In 2009, the PBC Accounting and Treasury Department enhanced the internal control mechanism of accounting, improved the management of accounting and treasury, capital construction, fixed assets and centralized procurement, and advanced the reform of enterprises affiliated to the PBC. As a result, the accounting and treasury management has been improved, which served as a strong guarantee for the PBC to perform its duties.

Theoretic study was strengthened to enhance accounting's role of monitoring and improve accounting service

First, to support the central work of addressing the financial crisis, the Accounting and Treasury Department studied developments of accounting standards reform at home and abroad, and concluded a series of research reports, which provided strong support to the decision-making process. These reports include *How Fair Value Accounting Is Changed by the Financial Crisis*, *Reshaping the Fair Value Accounting*, and *Continuing and Comprehensive Convergence of Chinese Accounting Standards for Business Enterprises with the International Financial Reporting Standards*. Second, the Department proceeded with PBC asset and liability management in coordination with other departments. Third, it developed accounting procedures to support the conduct of special repo trading in the open market, reserve swaps, interbank deposits, currency swaps and entrusted foreign currency loans. Fourth, it launched a special initiative to review the internal control security of accounting and treasury work in branches and branch offices and, on the basis of the review, designed improvement measures and ensured these measures were implemented.

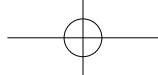
Treasury budgetary management was enhanced to hold spending under strict control.

First, in accordance with national regulations on promoting frugality in government agencies, the Accounting and Treasury Department reduced spending on official visits overseas, vehicle purchase and services, and hospitality. It also curbed spending on meetings, business travel and official reception to cut administrative costs. Second, the Department carried out a special system-wide campaign to regulate small exchequers. It cooperated with the National Audit Office (NAO) on its regular auditing of the PBC, and took actions to implement the improvement measures proposed by the NAO and address treasury irregularities. Third, the Department promoted wide introduction of the comprehensive treasury management system, which helps improve the level of accounting and allows real-time monitoring on spending in branch offices.

Monitoring and inspection of capital construction projects were strengthened, and the capital construction management was regulated

In an effort to implement the *PBC Measures for the Inspection of Capital Construction Projects*, the Department instituted a system-wide initiative to address major problems in construction projects, and urged branch offices to review ongoing projects within their jurisdiction and make improvements. As part of the initiative, the PBC established a committee at the headquarter-level for the approval of capital construction projects, and formulated the *Terms of Reference and Procedures of the Capital Construction Project Approval Committee*. As a result, the approval procedure for capital construction projects was improved.

Fixed asset management was improved, and centralized procurement was regulated



To ensure the accuracy of fixed asset booking and efficient utilization of fixed assets, the Accounting and Treasury Department formulated the *Procedure for the Transfer and Booking of Fixed Asset of the PBC Head Office*, which sets out strict procedures for the transfer, disposal and retiring from service of fixed assets. The Department issued the *2009-2010 PBC Centralized Procurement Programs and Quota Standards*, which widens the procurement scope and properly divides procurement programs between the Headquarter and branch offices. It revised the *Trial Measures of the PBC on Centralized Procurement Management* in order to strengthen supervision on procurement activities. The Department also performed strict examination of procurement of import products by branch offices, and completed the procurement of vault doors, contracted supplier of cash-in-transit vehicles and supplier of escort vehicles.

Reform was progressed in directly affiliated enterprises to establish modern corporate system

First, based on a comprehensive review of the experience of introducing modern corporate system in affiliated enterprises since 2006, the Accounting and

Treasury Department laid out approaches to move forward the reform in the next phase. Second, the Department completed the 2008 performance assessment on the China Banknote Printing and Minting Corporation, China Gold Coin Incorporation, and China Financial Computerization Corporation, three enterprises directly under the PBC, and finished the measurement and adjustment of some assessment indicators for 2009. Third, the Department approved the reform plan of the China Banknote Printing and Minting Corporation to modernize corporate system in its subsidiaries, thus pushing forward the overall reform process.

Accounting staff development was strengthened

The Accounting and Treasury Department trained over 430 leading accounting staff in the PBC system through various training programs and joint workshops with the Hong Kong Monetary Authority in 2009. As an effort to build a positive incentive mechanism, the Department organized an event to vote for outstanding accounting units and staff from 2005 to 2008 and honor them. The event was effective in motivating staff and improving accounting and treasury service to support the overall performance of the PBC.



HUMAN RESOURCES

Staff composition

As of December 31, 2009, the PBC staff (including 21 393 staff of the China Banknote Printing and Minting Co. Ltd and its subsidiaries) reached 135 010, of which 43 433 or 32.2 percent were female.

Among the total, 547 or 0.41 percent held Ph.D degree (in particular, 110 or 13.9 percent in the PBCHO); 6 542 or 4.8 percent held master's degree (405 or 51.0 percent in the PBCHO); 59 575 or 44.1 percent held bachelor's degree (203 or 25.6 percent in the PBCHO). In 2009, 1 983 new staff were recruited from universities and other entities, and 2 928 staff were retired.

Among the PBC staff, 794 were in the PBCHO (including both the staff managed referring to civil servant law and the staff in the PBC attached units), 595 in the PBCSHO, 1 892 in the PBC direct affiliations, 6 427 in branches and operations offices (including operations offices under branches), 9 065 in sub-branches in provincial capital cities, 1 463 in sub-branches in quasi province-level cities, 45 107 in sub-branches in prefecture-level cities and 47 612 in county-level sub-branches.

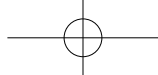
Changes of senior officials

In October 2009, Mr. Zhu Min was promoted from Group Executive Vice President and member of the CPC committee of Bank of China (BOC) to Deputy Governor and member of the CPC committee of the PBC.

Team building

In 2009, personnel administration work of the PBC was concentrated on satisfying the needs of the central bank in performing its functions, accomplishing its central tasks and serving the overall arrangement. As a result, prominent achievements were made in building the team

of officials and that of talents, thus providing effective support to the PBC in performing its functions. First, continued steps were taken to build the team of officials. In 2009, the heads of 24 departments and affiliations were appointed; the exchange of officials as an effective form of training staff was promoted continuously through various channels: officials in the PBCHO were designated to take temporary posts in other national ministries concerned or local authorities and newly recruited staff selected to work temporarily in sub-branches in prefecture-level cities; the staff in branches, sub-branches and direct affiliations were seconded to the PBCHO. Second, new progresses were achieved in building the team of talents. *The Research Report on Team-building Strategy for Financial Talents* was finished according to the unified deployment of CPC Central Coordination Group for Talent Development. In accordance with the "Thousands of People Plan"~A strategic program on the introduction of high-level overseas talented people to return (to China), "Thousands of People Plan" in financial industry was implemented and the evaluation and recommendation on candidates for "Thousands of People Plan" in 2009 was completed; the team of talents was kept well managed and a total of 289 senior professionals were selected in 2009; the review of name list of the PBC experts who received Government Special Allowance of the State Council was finished and the privilege policy on improving treatment of experts who enjoyed Government Special Allowance monthly was carried out; the revision and proposition of teaching materials for national qualification exam on finance (medium and primary stages)~economic series was accomplished. Third, the recruitment of new staff was ended. In order to ensure the quality of new staff, examination-based recruitment was adhered to. In 2009, among the new staff 712 or 46 percent held master's degree. The structure of the PBC



staff was further improved.

Staff training

In 2009, the PBC made continued efforts to train its staff and gradually enhanced relevance and effectiveness of training through further integrity of training resources and extension of training channels. First, training programs got well accomplished and staff training and management system was further improved. The training and management of the staff in branches and sub-branches who were engaged in training administration was strengthened; training registration got standardized; the ability to operate and control the distance training plat was enhanced. *Administrative Rules on the PBC Staff Training* and *Provisional Rules on the PBC Staff Adjustment and Training* were drafted. Second, more efforts were made to train officials at all levels, high-level talents and backbone staff. In 2009, the PBC arranged 10 training courses for officials at all levels which were attended by 1 200 officials, 4 training courses for high-level talents and 13 training courses for young officials which were attended by 1700 high-level talents as well as middle and young backbones. Among the above training courses, there was 1 training course for the heads of sub-branches in quasi province-level cities and above, 1 for deputy

leaders of sub-branches in quasi province-level cities and above, 1 for heads of sub-branches in prefecture-level cities, 3 for county-level sub-branches, 1 for directors of personnel divisions, 2 for newly appointed directors in the PBCHO as well as sub-branches in quasi province-level cities and above, and 1 for section-level officials in sub-branches in prefecture-level cities. In 2009 the PBC held 12 academic seminars and 4 overseas training courses, undertook 3 training programs held by Organization Department of the CPC Central Committee which were attended by 90 officials at provincial level from local authorities as well as officials at departmental level from financial institutions and compiled the third batch of training materials for officials organized by Organization Department of the CPC Central Committee together with CBRC, CSRC and CIRC. Third, new progresses were made to enhance distance training and broaden training channels. In 2009, the plat of distance training system made it come true to save training costs and improve training efficiency by sharing training resources such as training faculty as well as training courses between the PBCHO and its branches and sub-branches. In 2009 the PBC held 3 distance training courses and newly added nearly 70 distance training lessons and lectures from which 43 000 staff were benefited.



INTERNAL AUDITING

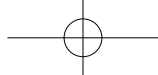
In 2009, following the overall guideline of strengthening compliance auditing and promoting audit transformation, the PBC Internal Auditing Department successfully performed its functions of supervising, assessment, advising and providing professional service with concrete and innovative work, which greatly supported the PBC's efforts in fulfilling its mandates in line with law. Throughout the year, the PBC internal auditing units at all levels completed 6 051 auditing programs, produced 4 260 auditing conclusions and opinions, and presented 23 099 proposals for improvement.

Performance audits and separation audits were strengthened

The Internal Auditing Department launched performance audits on Presidents of the Hangzhou branch office and Shijiazhuang branch office, and conducted separation audits on Presidents of the Shanghai Head Office, Guangzhou Branch and branch offices in Haikou, Lhasa and Shenzhen as well as senior officials in the China Foreign Exchange Trading System, China Financial Publishing House, and the PBC Representative Office in Tokyo. Local internal auditing units completed 1 245 performance audits on Presidents of lower branch offices and senior officials at fellow units at the same level, and conducted 790 separation audits. These audits focused on key areas including decision-making, treasury control, management of affiliated institutions and the building of internal control mechanism, and put particular importance on areas that are directly related to the responsibility of the officials under auditing. They were successful in developing a strong awareness of self-discipline and responsibility, and their results served as reference and basis for selection and promotion at various levels.

A wide range of special audits were conducted

First, the special audit on capital construction management was continued. In line with the principle of full coverage and full process supervision, internal auditing units audited 95 capital construction projects in 1 branch, 3 branch offices in provincial capital cities, 1 branch office in sub-provincial capital city, 40 city branch offices and 50 county-level branch offices, which were effective in improving capital construction management and preventing risks of irregularity. Second, the special audit on administrative and logistic units were initiated, which helped improve the standard and efficiency in these units. The special audit covered administrative and logistic units in 342 branches or branch offices. In addition, a total number of 114 institutions directly affiliated to 94 of these branches, including training centers and guesthouses, were also audited. Third, the special audit on funds and materials for disaster relief and reconstruction was continued in 149 institutions, which ensured that these funds and materials were efficiently used in line with regulations. Fourth, the special audit on internal control was continued in 1 branch, 8 branch offices in provincial capital city, 21 city branch offices and 91 county-level branch offices. It successfully identified and looked into problems from the perspective of internal control, and presented audit advice accordingly, promoting the building of internal control mechanism. Fifth, the special audit on administration by law, which was conducted from 2007 through 2009, was continued. A total number of 208 institutions participated in the special audit program after it was expanded to cover city-level branch offices in 2009. It regulated administration at various levels, and improved the level of administration by law. Sixth, the special audit on IT application and system operation management was



conducted in 2 branches and 51 city branch offices, which helped improve IT management in these institutions.

Supervision over directly affiliated enterprises and institutions was enhanced through auditing

The Internal Auditing Department completed special audit on treasury management in the Credit Information Center, the Procurement Center, and the Bureau of General Services, with special focus on internal control, asset management, treasury management, accounting, capital construction, and procurement management. The Department also started auditing of foreign exchange operation and management. These efforts helped improve internal control, risk management, decision-making and treasury management in enterprises and institutions directly affiliated to the PBC.

The special inspection on internal control security management was launched

In the first half of 2009, the PBC initiated a campaign to review internal control security in the entire PBC system, covering branch offices at various levels. The campaign focused on county-level branch offices, and reviewed a number of key risk areas, including accounting, local bill exchange, state Treasury, currency issuance, security, and information system management. The inspection was conducted in a total number of 12 (or 33.3 percent) branch offices in provincial capital cities, 140 (45.5 percent) city branch offices and all 1766 county-level branch offices. In addition, city branch offices as well as branches and branch offices at higher levels were required to conduct self-reviews. The inspection campaign encouraged relevant departments

and branches to enhance regulations, and strengthened coordination among departments at the PBCHO. As a result, in 2009, the PBC officially launched the establishment of a mechanism to ensure the long-term effectiveness of the management of internal control security.

Fundamental work was strengthened to support the development of internal auditing

First, efforts were made to strengthen the organization, management and examination of internal auditing, which were partly reflected in the publishing of the *PBC Rules on Internal Auditing Statistics Collection and Reporting* and the *PBC Measures for Internal Auditing Examination*. Second, the PBC Internal Auditing Management System was introduced after successful trial operation, improving the way internal auditing is conducted. Third, information communication was enhanced through an update of the internal auditing web pages, which now provide a wider scope of high quality and rich contents. Fourth, theoretical study was strengthened to promote the transformation and development of internal auditing. Internal auditing units at various levels completed 554 research programs and 710 study reports, and published 377 papers. Fifth, training programs were enhanced to improve the overall professionalism of officials in internal auditing units. In 2009, a total number of 344 training programs were held, which provided training to 7 848 officials. Sixth, international exchange was boosted. The Internal Auditing Department sent officials to Australia, UK and Germany for study and training, and participated in the conference for senior internal auditing officials from central banks and monetary authorities in the Asia-Pacific region.



FINANCIAL SURVEY AND STATISTICS

In an innovative spirit and keeping up with the latest developments, the PBC Financial Survey and Statistics Department endeavored to fulfill its functions in line with the scientific development approach in the face of more complex economic and financial situation both at home and abroad in 2009. It produced more than 1 200 statistical reports throughout the year, nearly up 100 percent year on year, providing timely, accurate and comprehensive data support for the decision-making of monetary policy. The Department also launched a series of widely followed high quality statistics programs, which enhanced the reputation of central bank's function of statistics and analysis.

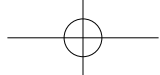
Make innovation to support the economic development

The research and innovation of statistical system played an essential role in improving the management of financial industry and strengthening the foundation of statistical and analytical work. In 2009, the Financial Survey and Statistics Department started to take statistics on RMB settlement of cross-border trade, statistics on loans to small- and medium-sized enterprises (SMEs) and statistics on banker's acceptance draft, improved the approach of securities statistics, and upgraded the grouping of financial institutions and the structure of credit statements in accordance with international standards. On November 30th, the PBC officially published the *Coding Specifications for Financial Institutions and the Regulation on Management of the Coding of Financial Institutions*, and complied the codes for 270 000 financial institutions and their domestic and foreign branches. This marked a significant progress in standard building in financial statistics and establishing a sound standardization framework for financial statistics. Meanwhile, the work on classification and

definition of standardization of financial markets were accelerated in order to support economic monitoring and macroeconomic management.

A statistics system on monitoring SMEs at industrial zones was set up. The new system filled the blank of collecting micro-economic information of SMEs, and helped the PBC to evaluate the effectiveness of monetary policy and assess the development of the real economy. The Survey on Urban Depositors was improved to take into account both data consistency and comparability. This enabled the Department to better reflect and study the latest changes in the household willingness on investment, saving and consumption, and look into the transformation of urban residents' consumption behavior.

The Financial Statistical Data Centralization System was officially put into operation in 2009, indicating the beginning of a new stage of development for financial statistics. Under the new system, the database managed by the PBCHO has expanded by nearly 100 times, and a series of new statistics reports were produced, including daily statistics reports, monthly statistics reports on village and township banks, micro-finance corporations, loans to SMEs, banker's acceptance draft, and quarterly statistics reports on profit in domestic and foreign currency. The weekly reports, ten-day statistics and monthly statistics express were improved. Throughout the year of 2009, the Department collected and processed over 1 billion statistics items, and compiled 15 categories of statistical statements. Statements centrally produced on the basis of monthly statistics reports exceeded 60 000, up by dozens of times year on year. Moreover, the processing capacity and utilization of the 5000 Enterprises Survey were greatly improved as a result of nationwide centralized data management along with a higher level of standardization.



Conduct survey, research and enforcing monitoring

By using econometrical methods, such as time serial model and seasonal adjustment, the Department enhanced the analysis and forecast of financial developments, especially the study on money and credit models. This helped make analysis and forecast more proactive, scientific and timely, supporting the central bank in managing the intensity and pace of financial policies. The Department built an analytical system that reviews month-on-month or quarter-on-quarter changes of a range of economic and financial indicators, including GDP, investment, and prices, and produced the *Monthly Express Statistics Report of Core Macroeconomic Indicators* using the PBC version X-12-ARIMA software.

Building on the basic statistics functions, the Department placed much emphasis on research to capture economic and financial data in a swift way. Regular in-depth field survey was conducted for enterprises covered in the 5000 Enterprises Survey. The regional Monitoring Group and the Coal and Steel Monitoring Group for 5 000 Enterprises were built in an effort to monitor key regions, industries and leading indicators, which proved to be a new survey model that is rapid, flexible and centralized. The Department compiled inventory indices and small enterprise indices for 5 000 enterprises, which greatly facilitated the close monitoring of inventory changes and the operation of small enterprises, and economic forecast and analysis. In 2009, the Department completed the survey on 5 000 enterprises, bankers, urban depositors and import & export enterprises, with shortened time period of data delivery and disclosure. The Department also improved the survey on enterprise product prices. It provided over 70 pieces of news on price movements for government news network, strengthening the influence of the central bank's information on price movements. The Department enhanced study on a number of special issues, including monitoring of monetary, financial market statistics and analysis, and produced a series of key reports, such as *Several Observations on the Rapid*

Growth of Paper Financing, Future Trajectory of Money and Credit: Meeting the Target of 17 Percent M2 Growth for 2009, and the Moderately Loose Monetary Policy: Background, Effect and Outlook. To identify the future path of economic and financial development and key issues as well as major difficulties, the Department has taken a range of actions. It started surveys on micro-finance corporations, and looked into the loans of investment and financing platform of local governments, the direction and structure of these loans as well as their financial position. It studied the demand of funds in key fixed assets investment projects, and monitored the capacity utilization rate of key industrial products on a quarterly basis. It conducted research on the definition of capacity utilization rate, its statistics and movements in China and other major countries, and made initial study on setting up a PBC statistics framework on capacity utilization rate. The Department set up an analytical framework for micro-economy and prepared the *Analysis on Changes in Economic Prosperity in 2009*. It also started surveys in line with hot economic and financial issues and the focus of macroeconomic management, including on the labor price and employment of rural migrant workers, steel inventory, depository account, and loans classified by share holdings type, etc.

Enhance communication and exchange to find ways to improve our financial statistics system

Information communication and exchange were improved, and statistics information sharing among financial institutions was enhanced under the joint-meeting mechanism among the PBC, CBRC, CSRC, CIRC and the SAFE. Communication and exchange among these agencies were strengthened through regular meetings, including the quarterly meeting on statistical work on financial institutions, meeting on the special statistics system for agro-linked loans, and quarterly meeting on macroeconomic developments. In terms of international exchange and cooperation, an international



seminar was jointly held with the IMF. The seminar discussed approaches and thoughts for central banks to build a comprehensive, balanced and flexible financial statistics system and produced a report entitled *Drawing Experiences and Lessons: Build a Comprehensive, Balanced and Flexible Financial Statistics System*. As a member of the Inter-ministerial FSAP working group, the Department also actively participated in the IMF's Joint Compilation of Financial Stability Indicators Program.

In the Second National Economic Census, the Department completed the collecting, compiling and reporting of the list of 187 867 banks, their branches and other financial institutions across the country, and in particular completed the collecting, examining and aggregating of data on balance sheet and profit and loss statement of 6 526 incorporated institutions. The Department was awarded an honorary title for its excellent work in the Second National Economic Census.

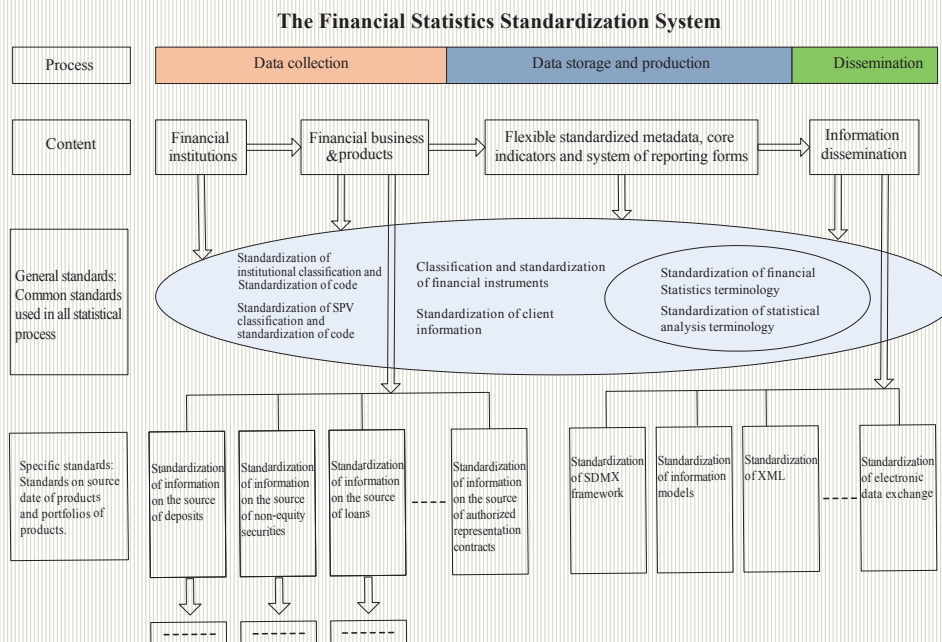
BOX

Standardization of Financial Statistics

Economic globalization has resulted in rapid progress in financial reform and innovation, swift evolution of the operating system of financial institutions and the macroeconomic management approaches used by the PBC, as well as the convergence of accounting principles of financial institutions toward international standards. In line with this development, it has become evident that the current statistical indicator system needs to be updated to adapt to latest economic development. This problem has been highlighted by the recent crisis, when the considerable lack of key financial statistics led to an underestimation of the impact of the crisis as countries hit by the crisis found it difficult to assess the spillover and contagion of the crisis. After the crisis, international organizations and major countries have been bringing forward proposals and reform schemes on financial regulation, which were centered on strengthening macro-prudential regulation and stressed the role of central bank in the process. It was believed that there is a need to improve the system used by central banks to monitor systemic risks, set up a financial statistical system that covers the banking, securities and insurance sector as well as cross-border institutions. Statistics standardization is viewed as the way to coordinate various financial data at the source and improve data quality, contributing to effective information sharing.

Based on previous studies by relevant international organizations and developed countries, a sound theoretic and methodology system has been established. The system includes the System of National Accounts (SNA), Money and Financial Statistics (MFS), and Balance of Payment (BOP) statistics, which provide guidance for macroeconomic and financial statistics. It also includes rules on SDDS/GDDS, statistics data interpretation and metadata exchange (SDMX), which provide international standards on data interpretation, information exchange and disclosure. While some institutions, for example, the European Central Bank (ECB), have also made efforts in standardization of securities statistics, most of these work focuses on guidance for the front-end (theoretical framework) and the back-end (information dissemination). The financial statistics

standardization system, which was designed by the PBC on the basis of internationally recognized theoretical framework, has developed specific standards on data collection and processing, including standards on classification of sectors, financial institutions, and financial instruments, as well as standards on valuation of financial instruments and standards on financial statistics terminology (See below).



Generally speaking, these standards are divided into three categories: general standards, specific standards and metadata standards. General standards are used in all statistical processes, such as standards on classification of economic sectors and financial instruments. Specific standards are used in certain process or financial instruments, which include standards on the five-class classification of loan quality and standards on classification of fiscal support policies. Metadata standards describe the definition, value, code and range of data, including the name in Chinese, internal code, definition, type and format, as well as range, unit and note, etc.

The PBC has published the Coding Specifications for Financial Institutions and the Standard on Classification and Code of Financial Instruments. These two standards help consolidate the classification standards for financial institutions and financial instruments on the macro-level. They specify the definition of financial institution for the first time, and define institutional structure of various types of financial institutions and the statistics coding of financial institutions. They also specify the coverage of financial instrument, the specific definition for different financial instruments, and the coding of financial instruments. The financial statistics standardization is consistent with the trend of integrated development in the financial sector. It tears down the wall that separates the banking, securities and insurance sector, and paves the way for setting up an integrated cross-sector financial statistics system.



FINANCIAL RESEARCH

Against the backdrop of mix and tough economic and financial condition in 2009, the PBC financial research system accomplished a variety of research projects with the correct leadership of the PBC Party Committee and the supports of branches, playing a significant role in fulfilling central bank mandates.

Followed economic and financial situation as well as crisis response measures both at home and abroad

First, study on macroeconomic condition and credit levels was intensified. Monetary policy changes both at home and abroad were followed. Prices, in particular energy prices, were closely watched. In-depth surveys were conducted on banking lending against government guarantee and paid-in capital and sources of capital for newly-start fixed asset projects. Continuous monitoring was made on investment and financing of private enterprises and unofficial moneylenders and usuries. Second, research on international crisis was unveiled. Research programs included evolution of international crisis and economic recovery, post-crisis international trade financing, factors affecting RMB internationalization, gold reserve build-up after crisis, counter-crisis-measure exit strategy. Third, vigorous efforts were made to participate and promote international financial cooperation. In the context of G20 London Summit and Pittsburgh Summit, in-depth researches were made on issues like international monetary system reform, global economic imbalance, RMB part in SDR, and China's involvement in global financing and development program.

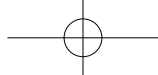
Thoroughly Studied major issues in China's reform and development

Major research projects relating to the Twelfth Five-year Plan were unveiled such as Strategy on Financial

Industry Growth and Financial Security. Other research programs covered banking sector efficiency, issues pertaining to the reform of the Export-Import Bank of China, China Export & Credit Insurance Corporation, and Agricultural Development Bank of China. Tight focus was given to research on interest rate and exchange rate. Based on underlying cause of under-liberalized interest rate market, policy suggestions were proposed to push forward market-based interest rate reform. Foreign and domestic literatures on exchange rate and RMB exchange rate regime were studied to further explore the direction of RMB exchange rate regime reform. The study of financial markets was brought into spotlight, covering the comparison of asset securitization patterns between Europe and the U.S., credit system construction for small and medium-sized enterprises, real estate investment trust fund, shock of restricted stock reduction and IPO on banking system, and risk of listed banks admittance into stock exchanges and bond markets. Fiscal taxation was also diagnosed such as real estate tax and export rebates, as well as financing leasing and taxation policy on financial asset. Financial legislation moved forward on personal insolvency, inclusion of non-depository lender into the amendment of *General Provisions on Lending*, judicial explanation of guarantee property in *Property Law* in collaboration with the Supreme Court, and survey on receivables guarantee financing after the implementation of *Property Law*.

Explored effective channels for financial support to economic growth model shift and economic structure adjustment

A series of studies was made on financial support to culture industry, environment protection, modern agriculture industry, service industry, expansion of domestic demand, and climate change, with



corresponding reports submitted to the State Council. On propelling balanced regional economic growth, the PBC financial research system engaged in the establishment of financial policies in regional development plan and policy guidance, including financial support to economic and social development of Xinjiang Autonomous Region, Tibet Autonomous Region, building Shanghai into international financial center and shipping center, unified planning of urban and rural area development in Chongqing municipality, energy-efficient and environment-friendly Wuhan urban area, development of Hengqin Island in Guangdong province, urban agglomeration of Beijing, Tianjin and Hebei province, industry transfer of Wanjang urban area, development of coast area in Jiangsu province and Liaoning province, ecological area planning for Yellow River Delta, roadmap for recycling economy of Gansu province, pilot area for national ecological protection in Sanjiangyuan areas, Qinghai province, and ecological economic area in Poyang Lake in Jiangxi province. Financial support to agriculture was further strengthened. The *Trial Measures for the Assessment of Lending to Source Place in Definite Proportion of New Deposits* was submitted to the State Council. The PBC financial research system also involved in the Pilot Rural Financial Service in Tiandong County, Guangxi Province and followed the Pilot Operation of Micro Credit Company in the province.

Reinforced fundamental research, key project research, and featured research

Further improvement was made on macro econometric model. Economic forecast reports were produced on a periodic basis. Changes of national total factor productivity and labor productivity were continuously followed. The Program of Saving Financial History Records kicked off.

In 2009, the PBC accomplished 73 key research projects, with reports of financial stability, pro-cyclical of financial system, regionalization of RMB, and household

balance sheets well received by awards committee. Among the projects prized, the PBC Branches accounted for 60 percent of reports with first prize, a record high.

Over the past year, the PBC financial research system explored effective research methods and accomplished a patch of high quality reports. Featured research played a growing role in supporting and facilitating other research programs.

Speeded up research on financial support to local economic development

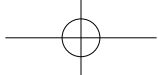
The PBC branches strengthened survey and research on local economic development and provided greater policy support for local economic and financial development. Some branches kept close watch on impact of national industry revitalization plan on local industry, with survey reports submitted to the State Council. Some branches coordinated local government to push forward pilot operation of micro credit company and drew up administrative measures that were issued in the name of the local provincial governments. And other branches were highly appraised by local governments for their regional economic and financial reports.

Improved organization of research groups based on the established system

Visiting scholar system was unveiled to attract elites from home and abroad to serve central bank research work. Administrative system on postdoctoral was improved. With periodic academic seminar system in ready, a number of academic seminars, masterpiece explanation activities, and postdoctoral theme seminars were held to nurture central bank seminar culture. Based on BIS research working team mechanism, exchange of research staff was intensified among central banks in Asia.

Boosted academic exchanges

China Society for Finance and Banking hosted a series of large scale and influential seminars, including



Seminar between China and Russia, Seminar between China and India, Seminar on Sides across Taiwan Straits, and China Finance Seminar. It co-hosted high-level academic seminars with local governments, colleges, and financial institutions, such as 2009 Northeast China Finance Seminar and Multi-layer Credit Market Seminar. Banking Accounting Society of China launched first

academic year and seminars in the theme of global financial crisis, fair value application, and banking accounting risk prevention. Focused on the introduction of new accounting standards, Banking Accounting Society of China organized regulatory authorities and financial institutions to finish and publish 12 key research projects.

BOX

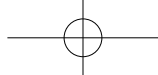
Promoting the Development of Shanghai International Financial Center

The year 2009 was a milestone in the development of Shanghai as an international financial center. In April, the State Council promulgated the *Opinions of the State Council on Accelerating the Development of Shanghai's Modern Service Industry and Advanced Manufacturing Industry and Building Shanghai into an International Financial and Shipping Center* (hereinafter referred to as *the Opinions*). This was the first national document on the development of financial center and would play a significant role in guiding and driving forward the development of Shanghai as an international financial center. After the release of *the Opinions*, the General Office of the State Council issued a notice specifying the division of work in the implementation of *the Opinions*, according to which an inter-ministry coordination mechanism devoted to the dual-center development in Shanghai (Shanghai international financial center and shipping center) was established and headed by the National Development and Reform Commission, with the participation of the PBC and many other ministries and commissions. Besides, Shanghai also issued *Provisions of Shanghai Municipality on Promoting the Development of International Financial Center* and formulated policies necessary to shore up financial innovation and attract financial talents.

The PBC has attached substantial importance to developing the Shanghai international financial center and has been actively involved in the efforts, especially in the development of the financial market system and infrastructure. In 2009, thanks to concerted effort from all parties, all key tasks related to the financial center building efforts were in full swing.

Investigations and research were conducted vigorously on the development of the Shanghai international financial center

Prior to the issue of *the Opinions*, the PBC called several meetings to study issues related to the building of the Shanghai international financial center and put forward policy recommendations



accordingly. After *the Opinions* was released, the PBCSHO actively strengthened the communication and coordination with the Shanghai Municipal Government and formulated, on the basis of thorough study, the *Opinions on Supporting the Shanghai Municipal Government in Carrying Out the Advice for Implementing Opinions of the State Council on Accelerating the Development of Shanghai's Modern Service Industry and Advanced Manufacturing Industry and Building Shanghai into an International Financial and Shipping Center*.

A working mechanism on promoting the dual-center development in Shanghai was established

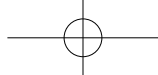
To better promote the dual-center development in Shanghai, the PBCSHO set up a working mechanism, under which a steering group headed by Su Ning, Deputy Governor of the PBC and President of the PBCSHO, was set up with a coordinating office sitting in the Statistics and Research Department of the PBCSHO. Meanwhile, seven working groups were established to undertake key tasks. To ensure orderly progress of relevant work, the coordinating office of the steering group strengthened institutional building, including holding liaison officers meetings (LOMs), issuing work briefings and so on. At end-2009, four LOMs were held and 17 work briefings were released.

Progress was made in key tasks of developing the Shanghai international financial center

The PBC has been fully involved in the efforts of developing the Shanghai international financial center with emphasis on whatever it was responsible for, and in particular, the work in which it played a leading role. Thanks to the joint effort of parties concerned, progress was witnessed in key areas.

The pilot project of RMB settlement in cross-border trade. Headed by the PBC and supported by relevant departments including the MOF, the Ministry of Commerce (MOFCOM), the General Administration of Customs (GAC), the State Administration of Taxation (SAT), the CBRC and the SAFE, RMB settlement in cross-border trade was launched successfully in Shanghai on a trial basis. Besides, progress was also achieved in various RMB-related businesses, such as RMB settlement in service trade, overseas RMB-denominated loans, cross-border RMB direct investment, and overseas RMB collateral. Besides, a preliminary program has been completed for the inflow of overseas RMB to domestic financial markets.

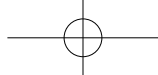
The building of financial market system. Given that the policy and business design schemes for the credit transfer market have already been completed, China Foreign Exchange Trade System would be in charge of the preparation for establishing a credit transfer market under the guidance of the PBC. Bank of East Asia, Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank, and Development Bank of Singapore are likely to become the first batch of locally incorporated foreign banks to issue RMB bonds domestically. At end-2009, the application documents for bond issuance were still under review by the banking regulator. In addition, the promotion of domestic bond issuance by overseas



institutions also saw progress. GE Capital (GEC) has already submitted to the PBC its application for issuing 1 billion worth of RMB-denominated bonds. Its bond issuance is being promoted in an active and steady manner. In August, the PBC and the CBRC jointly promulgated *Some Issues on the Financial Bond Issuance by Financial Leasing Companies and Auto Finance Companies*, setting forth specific provisions on the financial bond issuance by financial leasing companies. The bond issuance by Shanghai-based financial leasing companies is being promoted actively. Led by the PBC, 11 ministries and commissions jointly drew up the *Measures for the Administration of Issuing Real Estate Trust Beneficiary Certificates in the Inter-bank Bond Market*. Upon its release, the preliminary plan for pilot projects involving two real estate investment trusts in Shanghai Pudong New Area would undergo further adjustments so as to make new products available soon.

The development of financial institutions and business structures. The research on development schemes for offshore financial businesses in Yangshan Bonded Port was completed. A preliminary program was implemented for Shanghai-based financial institutions to launch comprehensive businesses on a trial basis, which would continue to improve in accordance with changing situations.

The building of financial infrastructure. Vigorously promoted by the PBC, the Shanghai Clearing House was founded on November 28, 2009. It is expected to provide comprehensive and centralized clearing for the inter-bank market, central counterparties in particular, and offer technical support necessary for financial product innovation.



SOCIAL PUBLICITY AND PUBLIC EDUCATION

The year of 2009 was the toughest year for domestic economic growth in the new century, and the most mix and turbulent year for international condition as well. Under the correct leadership of CPC Central Committee and guidelines given by the 17th Congress of the CPC, Third and Fourth Plenary Session of 17th Central Committee of the Party, with the guidance of Deng Xiaoping Theory of “Three Represents”, the PBC ascertained the scientific development approach. In accordance with the requirement of the State Council on financial publicity, the PBC intensified social publicity and public education, contributing to effective response to international financial crisis and maintaining of stable and relative rapid economic growth.

Publicized policies of macroeconomic management to enhance the accountability of the central bank

In the context of mix and turbulent economic condition, in accordance with the general guidelines for economic work given by the State Council, the PBC followed the requirement of the central government to carefully conduct macroeconomic management. Various channels were applied to publicize relatively loose monetary policy, such as news conference, news on the PBC website, and interview with news media. A package of measures was adopted to response to international financial crisis, including ensuring the rapid growth of credit, enhancing the sustainability of monetary policy, expanding direct financing scale, and meeting the fund demand from social development. With expanded domestic demand and reversed economic downturn, macro economic management achieved remarkable results. Greater efforts were made to publicize the measures utilized by the central bank to improve financial

market, push ahead financial reform, and maintain financial stability and safety. Favorable public opinion environment was created to cope with international financial crisis and accelerate recovery of national economy. The accountability of the central bank was stably enhanced.

Made propagandas for China’s financial development by a diplomatic way to create favorable public opinion environment

With the platform of G20 financial summit and by taking other important occasions, the PBC intensified international exchange and cooperation. The PBC participated in international financial system reform and pushed forward the IMF to innovate in financing channel through bill issuance. It supported global trade financing, hoisted the voice of China in international financial organizations, and improved external environment for domestic economic and financial development. Diversified methods were used to publicize the international dialogues on economic and financial policies China participated in, such as China’s join in Financial Stability Board, the Basel Committee on Banking Supervision, and Inter-American Development Bank. The PBC reinforced cooperation with Southeast Asian countries, engaged in mechanism activities, and launched financial cooperation with Hong Kong, Macao, and Taiwan, creating favorable international public opinion environment. On April 2009, Governor Zhou Xiaochuan released three papers on the PBC website, namely *Reform the International Monetary System*; *On Savings Ratio*; and *A further Probe into the Changing Pro-cyclically for Financial and Economic Stability*, with profound thoughts and receiving wide attention.



Gave publicity to significant events step by step so as to increase public confidence

The National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) of 2009 convened in the context of deepening international financial crisis and increasing pressure on economic downturn. On this occasion, the PBC adopted a package of measures to publicize policies to increase social confidence. During the conferences, Governor Zhou Xiaochuan attended themed news conference and answered questions from the press at home and abroad on measures to response financial crisis and maintain stable and relatively rapid economic growth. In addition, other governors of the PBC also accepted interviews from the press to answer the questions concerned by the public so as to publicize policies and achievements of macro economic management with the aim of guiding proper expectation of the public and helping them understand central government's policies on macro economic management. The year of 2009 was the 60th anniversary of the People's Republic of China. To fully introduce the achievements made by financial industry, the PBC made vigorous efforts to publicize the achievements of financial industry and financial support to economic development. Governor Zhou Xiaochuan was interviewed by Xinhua News Agency, the CCTV, and China National Radio. In the program of Interview of Ministers, he introduced monetary policy, financial reform and development, and financial support to economic growth, well-praised by the public.

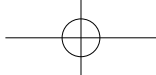
Boosted publicizing of financial service to better serve the enterprise and public

Intensive publicizing programs were introduced on the improvement in financial legislation, financial statistics, payment and settlement, financial IT, currency management, state treasury agent, anti-money laundering, and credit reporting. In addition, introduction was made

on speeding up of financial service innovation, enhancing financial service and management. Knowledge on financial legislation was widely introduced to the public, especially on December 4th legislation Day and March 15th Consumer Protection Day. Training of the PBC staff on financial laws was advanced. On the People's website, interviews were made on building up banking card market and industry. The featured publicizing was proceeded on Trial Project on Financial IC Card Multi-application Service. Publicizing on anti-money laundering was intensified. In the 09 Anti-counterfeit Crime Action, the PBC co-held news conference with the Ministry of Public Security on combating against counterfeit crime. The sixth China Credit Rating Outlook Seminar was held. And other activities were organized like Credit Reporting Knowledge Week and Credit Reports Day to help the public have a better understanding of the financial services they can enjoy.

Further promoted the disclosure of administrative information to accelerate transparent operation of the administrative power

Continued efforts were made to implement the *Ordinance of Government Information Disclosure* to enhance transparent of information. *The PBC Report on Administrative Information Disclosure in 2008* was released in a timely manner. With the help of the Internet for its wide users and convenience, the column of Information Disclosure was set up on the PBC website to release central bank information like monetary policy report, financial market report, financial stability report, and payment system report so as to efficiently serve the need of social production, living, and activities. In 2009, the PBC received and handle according to law 15 complaints on administrative operation. Following the principle of being fair, equal, and convenient, the PBC answered those complaints according to the Ordinance of Government Information Disclosure, provided accurate and reliable financial information to the public and

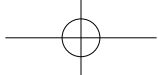


legal entity, and facilitated the transparent operation of administrative power.

Mobilized the PBC branches to publicize financial knowledge

The PBC branches held a series of Financial Knowledge Exhibitions in major cities to publicize financial knowledge and financial services provided by the PBC. Financial knowledge was also introduced in rural areas. Credit reporting programs were launched with the theme of Building up Rural Credit System and Supporting the Construction of New Countryside. Information on Tailored Bankcard for Migrant Workers

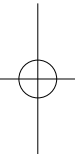
was introduced. Volunteers on anti-counterfeit were enrolled in rural areas to introduce knowledge on anti-counterfeit and treasury bills in rural fairs and villages. Financial knowledge was mixed into recreation activities, namely “Flower Gathering”, “Hillside Gathering”, “Community-sing”, etc, and well received by the people of different minorities. Furthermore, financial knowledge was introduced into administrative organizations, college campus, rural areas, enterprises, and residential communities. The activities organized by PBC branches introduced financial knowledge to the million of households and greatly optimized financial ecological environment.



The People's Bank of China

2009 | STATISTICAL ANNEX







SELECTED ECONOMIC INDICATORS

(Year-end Balance)

100 million yuan

	2005	2006	2007	2008	2009
Gross Domestic Product (GDP)	183 868.0	211 923.0	249 530.0	300 670.0	335 352.9
Industrial Value Added	76 190.0	90 351.0	107 367.0	129 112.0	134 625.0
Fixed Assets Investment	88 603.0	109 870.0	137 239.0	172 291.0	224 845.6
Retail Sales of Consumer Goods	67 177.0	76 410.0	89 210.0	108 488.0	125 342.7
Urban	45 095.0	51 543.0	60 411.0	73 735.0	85 133.1
Country & Below	22 082.0	24 867.0	28 799.0	34 753.0	40 209.6
Export & Import (100 Million of US Dollars)	14 221.0	17 607.0	21 738.0	25 616.0	22 072.8
Export	7 620.0	9 691.0	12 180.0	14 285.0	12 014.4
Import	6 601.0	7 916.0	9 558.0	11 331.0	10 058.4
Balance	1 019.0	1 775.0	2 622.0	2 955.0	1 956.0
Foreign Direct Investment (100 Million of US Dollars)	603.0	694.7	748.0	924.0	900.3
Foreign Exchange Reserves (100 Million of US Dollars)	8 189.0	10 663.0	15 282.5	19 460.3	23 991.5
Consumer Price Index (Previous Year=100)	101.8	101.5	104.8	105.9	99.3
Government Revenue	31 628.0	39 343.6	51 304.0	61 316.9	68 476.9
Government Expenditure	33 708.1	40 213.2	49 565.4	62 427.0	75 873.6
Fiscal Balance	-2 080.1	-869.6	1 738.6	-1 110.1	-9 500.0
Per Capita Urban Household Disposable Income (Yuan)	10 493.0	11 759.0	13 786.0	15 781.0	17 174.7
Per Capita Rural Household Net Income (Yuan)	3 255.0	3 587.0	4 140.0	4 761.0	5 153.0
Number of Employed Persons in Urban Areas (Million)	273.3	283.1	293.5	302.1	311.2
Registered Urban Unemployment Rate (%)			4.0	4.2	4.3
Total Population (Million)	1 307.6	1 314.5	1 321.3	1 328.0	1 334.7

Note: Sources from "China Monthly Economic Indicators" and "Statistical Communique of the People's Republic of China on the 2009 National Economic and Social Development".
Fiscal figures from "Report on the Implementation of the Central and Local Budgets for 2009 and on the Draft of Central and Local Budget for 2010".



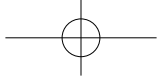
SELECTED ECONOMIC INDICATORS

(Growth Rates)

	Percentage change				
	2005	2006	2007	2008	2009
Gross Domestic Product (GDP)	10.4	11.6	11.9	9.0	8.7
Industrial Value Added	11.4	12.5	13.5	9.5	8.3
Fixed Assets Investment	25.7	24.0	24.8	25.5	30.1
Retail Sales of Consumer Goods	12.9	13.7	16.8	21.6	15.5
Urban	13.6	14.3	17.2	22.1	15.5
Country & Below	11.5	12.6	15.8	20.7	15.7
Export & Import	23.2	23.8	23.5	17.8	-13.9
Export	28.4	27.2	25.7	17.2	-16.0
Import	17.6	20.0	20.8	18.5	-11.2
Balance					-34.2
Foreign Direct Investment	-0.5	-4.1	13.6	23.6	-2.6
Foreign Exchange Reserves	34.3	30.2	43.3	27.3	23.3
Consumer Price Index	1.8	1.5	4.8	5.9	-0.7
Government Revenue	19.8	24.3	32.4	19.5	11.7
Government Expenditure	18.3	18.5	22.6	25.4	21.2
Per Capita Urban Household Disposable Income	9.6	10.4	12.2	8.4	9.8
Per Capita Rural Household Net Income	6.2	7.4	9.5	8.0	8.5
Number of Employed Persons in Urban Areas	3.2	3.6	3.7	2.9	3.0
Natural Population Growth (‰)	5.9	5.3	5.2	5.1	5.1

Note: Sources from "China Monthly Economic Indicators" and "Statistical Communiqué of the People's Republic of China on the 2009 National Economic and Social Development".

Fiscal figures from "Report on the Implementation of the Central and Local Budgets for 2009 and on the Draft of Central and Local Budget for 2010".

**SELECTED FINANCIAL INDICATORS****(Year-end Balance)**

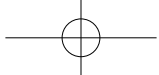
100 million yuan

	2005	2006	2007	2008	2009
Money & Quasi-money (M2)	298 755.5	345 603.6	403 442.2	475 166.6	606 225.0
Money (M1)	107 278.8	126 035.1	152 560.1	166 217.1	220 001.5
Currency in Circulation (M0)	24 031.7	27 072.6	30 375.2	34 219.0	38 246.0
Total Deposits with Financial Institutions	287 169.5	335 459.8	389 371.2	466 203.3	597 741.1
Urban & Rural Household Deposits	141 051.0	161 587.3	172 534.2	217 885.4	260 771.7
Enterprise Deposits	96 143.7	113 239.0	138 673.7	157 632.2	217 110.0
Total Lending by Financial Institutions	194 690.4	225 347.2	261 690.9	303 394.6	399 684.8

SELECTED FINANCIAL INDICATORS**(Growth Rates)**

Percentage change

	2005	2006	2007	2008	2009
Money & Quasi-money (M1)	17.6	16.95	16.74	17.82	27.7
Money (M2)	11.8	17.49	21.05	9.06	32.4
Currency in Circulation (M0)	11.9	12.65	12.20	12.65	11.8
Total Deposits with Financial Institutions	19.0	16.83	16.07	19.73	28.2
Urban & Rural Household Deposits	18.0	14.56	6.77	26.29	19.7
Enterprise Deposits	13.6	17.78	22.46	13.67	37.7
Total Lending by Financial Institutions	13.0	15.10	16.10	18.73	31.7



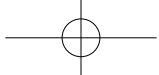
DEPOSITORY CORPORATIONS SURVEY IN 2009

(Quarter-end Balance)

100 million yuan

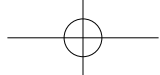
	Q1	Q2	Q3	Q4
Net Foreign Asscts	182 053.86	185 839.30	191 374.75	198 531.52
Domestic Credit	427 576.65	457 598.38	473 934.63	495 889.20
Claims on Government (Net)	30 642.58	26 684.95	25 457.06	32 289.81
Claims on Non-financial Sectors	371 399.47	404 604.85	422 806.32	437 005.26
Claims on Other Financial Sectors	25 534.59	26 308.58	25 671.25	26 594.14
Money & Quasi-money	530 626.71	568 916.20	585 405.34	606 225.01
Money	176 541.13	193 138.15	201 708.14	220 001.51
Currency in Circulation	33 746.42	33 640.98	36 787.89	38 245.97
Demand Deposits	142 794.71	159 497.17	164 920.25	181 755.54
Quasi-money	354 085.58	375 778.05	383 697.20	386 223.49
Time Deposits	100 344.77	112 491.19	113 899.97	110 871.95
Savings Deposits	243 054.91	249 223.66	255 612.15	260 271.50
Other Deposits	10 685.90	14 063.21	14 185.08	15 080.04
Deposits Excluded from Broad Money	10 791.47	11 134.71	11 020.25	11 812.60
Bonds	43 597.14	45 256.76	48 282.90	52 024.97
Paid-in Capital	22 053.86	22 267.62	22 685.21	23 290.35
Others (Net)	2 561.33	-4 137.63	-2 084.31	1 067.80

Note: Unlike "Other Deposits" in Monetary Aggregates, "Other Deposits" in this table has not included margin deposits of non-financial corporations ever since 2006.

**BALANCE SHEET OF THE MONETARY AUTHORITY IN 2009****(Quarter-end Balance)**

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	166 051.13	171 854.69	179 720.25	185 333.00
Foreign Exchange	153 130.79	159 281.11	166 460.89	175 154.59
Monetary Gold	337.24	669.84	669.84	669.84
Other Foreign Assets	12 583.10	11 903.75	12 589.51	9 508.57
Claims on Government	16 195.99	16 073.80	15 676.74	15 661.97
Of which: Central Government	16 195.99	16 073.80	15 676.74	15 661.97
Claims on Other Depository Corporations	8 457.45	7 483.52	7 591.72	7 161.92
Claims on Other Financial Corporations	11 832.51	11 775.80	11 701.00	11 530.15
Claims on Non-financial Sectors	44.12	43.96	43.96	43.96
Other Assets	8 061.47	8 553.62	7 817.24	7 799.46
Total Assets	210 642.67	215 785.39	222 550.91	227 530.45
Reserve Money	124 276.66	123 929.74	133 406.64	143 985.00
Currency Issue	36 853.77	36 720.53	40 504.78	41 555.80
Deposits of Financial Corporations	87 422.89	87 209.21	92 901.86	102 429.20
Other Depository Corporations	87 318.77	87 121.11	92 797.95	102 280.67
Other Financial Corporations	104.13	88.09	103.90	148.52
Deposits of Financial Corporations Excluded From Reserve Money	596.49	629.38	635.72	624.77
Bond Issuance	41 295.83	41 208.84	39 915.61	42 064.21
Foreign Liabilities	750.32	723.32	746.92	761.72
Government Deposits	15 953.96	24 012.97	27 247.71	21 226.35
Equity	219.75	219.75	219.75	219.75
Other Liabilities	27 549.65	25 061.40	20 378.54	18 648.64
Total Liabilities	210 642.67	215 785.39	222 550.91	227 530.45

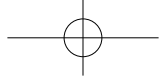


BALANCE SHEET OF OTHER DEPOSITORY CORPORATIONS IN 2009

(Quarter-end Balance)

100 million yuan

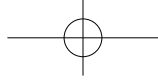
	Q1	Q2	Q3	Q4
Foreign Assets	21 607.56	19 477.24	17 001.97	18 745.43
Reserve Assets	89 606.90	89 480.62	95 761.64	104 554.73
Deposits with Central Bank	86 499.55	86 401.08	92 044.75	101 244.90
Cash in Vault	3 107.35	3 079.54	3 716.90	3 309.83
Claims on Government	30 400.55	34 624.11	37 028.03	37 854.19
Of which: Central Government	30 400.55	34 624.11	37 028.03	37 854.19
Claims on Central Bank	62 440.15	63 923.70	56 886.81	55 221.61
Claims on Other Depository Corporations	84 039.76	90 116.57	86 950.40	94 819.59
Claims on Other Financial Corporations	13 702.09	14 532.78	13 970.25	15 063.99
Claims on Non-financial Corporations	310 058.10	336 876.55	347 348.43	355 349.71
Claims on Other Resident Sectors	61 297.25	67 684.34	75 413.94	81 611.59
Other Assets	41 661.51	42 091.86	45 995.47	46 009.51
Total Assets	714 813.86	758 807.79	776 356.95	809 230.36
Liabilities to Non-financial Institutions & Households	499 296.45	534 415.70	547 732.77	567 114.10
Deposits Included in Broad Money	486 194.39	521 212.01	534 432.38	552 898.99
Enterprise Demand Deposits	142 794.71	159 497.17	164 920.25	181 755.54
Enterprise Time Deposits	100 344.77	112 491.19	113 899.97	110 871.95
Household Savings Deposits	243 054.91	249 223.66	255 612.15	260 271.50
Deposits Excluded from Broad Money	10 791.47	11 134.71	11 020.25	11 812.60
Transferable Deposits	4 256.54	4 644.33	4 578.37	5 319.20
Other Deposits	6 534.93	6 490.39	6 441.88	6 493.40
Other Liabilities	2 310.59	2 068.97	2 280.15	2 402.50
Liabilities to Central Bank	4 676.18	4 778.02	4 986.96	4 988.94
Liabilities to Other Depository Corporations	42 876.53	44 351.85	40 990.81	45 519.71
Liabilities to Other Financial Corporations	38 685.68	43 247.13	44 082.35	45 593.18
Of which: Deposits Included in Broad Money	10 685.90	14 063.21	14 185.08	15 080.04
Foreign Liabilities	4 854.51	4 769.32	4 600.54	4 785.18
Bond Issue	43 597.14	45 256.76	48 282.90	52 024.97
Paid-in Capital	21 834.11	22 047.87	22 465.46	23 070.60
Other Liabilities	58 993.26	59 941.13	63 215.16	66 133.68
Total Liabilities	714 813.86	758 807.79	776 356.95	809 230.36

**BALANCE SHEET OF CHINA DEVELOPMENT BANK AND POLICY BANKS IN 2009****(Quarter-end Balance)**

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	5 677.76	6 246.37	6 179.30	7 208.19
Reserve Assets	3 461.62	1 759.06	3 408.32	3 713.62
Deposits with Central Bank	3 457.82	1 755.67	3 405.99	3 711.18
Cash in Vault	3.80	3.39	2.33	2.44
Claims on Government	11.76	44.85	41.99	29.40
Of which: Central Government	11.76	44.85	41.99	29.40
Claims on Central Bank	1 363.36	2 111.03	513.34	66.65
Claims on Other Depository Corporations	2 673.51	3 155.11	3 349.91	3 636.99
Claims on Other Financial Corporations	42.06	218.78	75.03	351.60
Claims on Non-financial Corporations	45 227.09	48 197.99	49 794.40	53 758.27
Claims on Other Resident Sectors	57.62	59.88	57.33	107.39
Other Assets	1 985.10	1 915.18	1 838.33	1 973.30
Total Assets	60 499.87	63 708.26	65 257.94	70 845.40
Liabilities to Non-financial Institutions & Households	4 769.23	6 528.45	5 974.99	6 428.56
Deposits Included in Broad Money	4 466.74	5 994.76	5 525.99	5 990.98
Enterprise Demand Deposits	3 744.81	5 059.75	4 407.36	5 002.03
Enterprise Time Deposits	721.93	935.01	1 118.63	988.95
Household Savings Deposits				
Deposits Excluded from Broad Money	265.36	355.34	271.61	322.09
Transferable Deposits	205.30	303.81	203.67	244.72
Other Deposits	60.06	51.53	67.94	77.37
Other Liabilities	37.13	178.36	177.39	115.49
Liabilities to Central Bank	3 658.50	3 658.50	3 658.50	3 652.00
Liabilities to Other Depository Corporations	4 232.68	5 145.02	4 773.63	6 286.59
Liabilities to Other Financial Corporations	1 298.94	1 093.52	1 092.90	1 120.78
Of which: Deposits Included in Broad Money				
Foreign Liabilities	726.92	694.64	721.59	711.83
Bond Issue	38 501.00	39 542.46	41 737.16	45 409.42
Paid-in Capital	3 156.26	3 155.46	3 154.88	3 154.72
Other Liabilities	4 156.35	3 890.20	4 144.28	4 081.50
Total Liabilities	60 499.87	63 708.26	65 257.94	70 845.40

Note: China Development Bank, one of China's original policy banks, was transformed to a joint stock commercial bank on Dec. 16, 2008, thus leading to the change of the table's name since end-2009, but no any other change in institutional coverage.

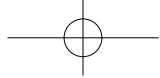


BALANCE SHEET OF STATE-OWNED COMMERCIAL BANKS IN 2009

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	11 686.74	9 042.08	7 325.80	7 873.33
Reserve Assets	49 041.10	47 592.69	50 586.79	51 432.85
Deposits with Central Bank	47 597.08	46 201.69	48 913.75	49 946.82
Cash in Vault	1 444.02	1 390.99	1 673.04	1 486.03
Claims on Government	17 623.31	19 941.12	21 495.68	21 944.84
Of which: Central Government	17 623.31	19 941.12	21 495.68	21 944.84
Claims on Central Bank	51 701.74	54 253.39	49 148.30	46 689.97
Claims on Other Depository Corporations	24 228.95	27 473.46	26 984.89	29 924.32
Claims on Other Financial Corporations	10 855.16	11 565.58	11 303.38	11 451.99
Claims on Non-financial Corporations	136 542.03	145 525.18	149 264.34	152 396.48
Claims on Other Resident Sectors	29 697.04	33 044.73	37 224.15	40 623.40
Other Assets	24 263.78	24 772.57	26 931.31	26 186.45
Total Assets	355 639.85	373 210.80	380 264.63	388 523.63
Liabilities to Non-financial Institutions & Households	270 251.99	284 432.46	291 288.39	296 834.67
Deposits Included in Broad Money	261 997.07	276 341.94	283 073.83	288 216.71
Enterprise Demand Deposits	78 548.46	84 240.61	85 898.12	92 435.38
Enterprise Time Deposits	42 039.07	47 508.02	48 637.98	45 689.63
Household Savings Deposits	141 409.53	144 593.31	148 537.72	150 091.70
Deposits Excluded from Broad Money	6 341.74	6 588.60	6 551.05	6 845.06
Transferable Deposits	2 174.08	2 355.99	2 414.85	2 769.77
Other Deposits	4 167.66	4 232.62	4 136.21	4 075.29
Other Liabilities	1 913.18	1 501.91	1 663.51	1 772.90
Liabilities to Central Bank	445.46	461.96	484.77	536.82
Liabilities to Other Depository Corporations	15 598.67	15 057.68	13 088.80	14 136.99
Liabilities to Other Financial Corporations	24 132.41	27 225.07	27 679.63	28 765.47
Of which: Deposits Included in Broad Money	6 795.48	9 242.51	9 211.06	9 609.20
Foreign Liabilities	709.02	888.92	902.26	782.29
Bond Issue	1 838.78	2 340.86	2 953.02	2 871.90
Paid-in Capital	10 815.47	10 815.47	10 815.47	10 815.47
Other Liabilities	31 848.05	31 988.39	33 052.29	33 780.03
Total Liabilities	355 639.85	373 210.80	380 264.63	388 523.63

**BALANCE SHEET OF JOINT STOCK COMMERCIAL BANKS IN 2009****(Quarter-end Balance)**

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	2 127.90	1 989.13	1 691.51	2 022.65
Reserve Assets	13 662.94	15 589.77	17 041.83	18 568.05
Deposits with Central Bank	13 360.91	15 276.27	16 643.13	18 198.50
Cash in Vault	302.03	313.50	398.70	369.55
Claims on Government	5 067.51	6 152.03	6 578.72	6 508.40
Of which: Central Government	5 067.51	6 152.03	6 578.72	6 508.40
Claims on Central Bank	5 422.52	4 211.37	4 222.36	5 616.01
Claims on Other Depository Corporations	22 084.06	22 619.67	21 821.69	23 818.29
Claims on Other Financial Corporations	1 632.87	1 714.61	1 659.62	1 964.64
Claims on Non-financial Corporations	63 847.60	72 729.30	72 419.99	71 811.04
Claims on Other Resident Sectors	11 472.32	12 813.32	14 792.58	16 615.19
Other Assets	6 727.69	6 989.02	7 946.47	9 178.88
Total Assets	132 045.43	144 808.22	148 174.77	156 103.14
Liabilities to Non-financial Institutions & Households	90 242.77	100 025.13	102 439.72	105 834.14
Deposits Included in Broad Money	87 718.25	97 586.53	99 906.58	103 122.77
Enterprise Demand Deposits	29 299.70	34 456.71	36 282.04	40 275.54
Enterprise Time Deposits	37 139.95	40 997.76	40 366.39	39 192.70
Household Savings Deposits	21 278.60	22 132.06	23 258.16	23 654.52
Deposits Excluded from Broad Money	2 257.07	2 152.26	2 229.82	2 367.26
Transferable Deposits	779.60	784.99	804.93	1 030.46
Other Deposits	1 477.47	1 367.27	1 424.89	1 336.80
Other Liabilities	267.45	286.33	303.32	344.11
Liabilities to Central Bank	0.96	0.68	122.66	170.23
Liabilities to Other Depository Corporations	12 647.98	13 505.18	12 784.17	15 284.89
Liabilities to Other Financial Corporations	11 580.02	13 260.98	13 261.95	13 646.27
Of which: Deposits Included in Broad Money	3 572.12	4 583.54	4 623.95	5 072.39
Foreign Liabilities	343.45	365.95	415.89	513.45
Bond Issue	2 788.52	2 700.98	2 867.17	2 779.51
Paid-in Capital	1 873.97	1 896.56	2 034.06	2 093.92
Other Liabilities	12 567.76	13 052.76	14 249.15	15 780.74
Total Liabilities	132 045.43	144 808.22	148 174.77	156 103.14

Note: This table covers all joint stock commercial banks of country-level.

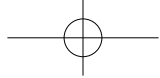


BALANCE SHEET OF URBAN CREDIT COOPERATIVES IN 2009

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	117.75	105.68	106.98	91.34
Reserve Assets	5 747.23	6 471.71	6 871.32	9 312.01
Deposits with Central Bank	5 570.14	6 282.72	6 647.11	9 075.96
Cash in Vault	177.09	188.99	224.21	236.06
Claims on Government	3 816.99	4 169.34	4 414.59	4 524.55
Of which: Central Government	3 816.99	4 169.34	4 414.59	4 524.55
Claims on Central Bank	1 192.85	868.67	704.16	561.26
Claims on Other Depository Corporations	7 432.15	8 378.88	8 160.17	9 123.45
Claims on Other Financial Corporations	679.69	505.42	410.80	625.89
Claims on Non-financial Corporations	21 745.06	24 571.33	26 410.52	27 051.60
Claims on Other Resident Sectors	2 900.36	3 207.46	3 635.87	4 083.99
Other Assets	1 726.24	1 872.65	2 041.11	1 968.56
Total Assets	45 358.30	50 151.13	52 755.52	57 342.64
Liabilities to Non-financial Institutions & Households	35 302.56	39 352.32	41 189.63	45 003.52
Deposits Included in Broad Money	35 089.10	39 107.86	40 932.44	44 710.18
Enterprise Demand Deposits	13 950.65	15 779.46	16 858.58	19 777.37
Enterprise Time Deposits	10 465.86	11 965.05	12 305.97	12 476.81
Household Savings Deposits	10 672.59	11 363.35	11 767.90	12 456.01
Deposits Excluded from Broad Money	167.91	196.38	200.20	217.85
Transferable Deposits	86.29	116.06	112.14	114.63
Other Deposits	81.62	80.32	88.06	103.22
Other Liabilities	45.55	48.08	56.98	75.48
Liabilities to Central Bank	48.71	53.90	66.42	64.70
Liabilities to Other Depository Corporations	4 501.57	4 806.54	4 718.82	4 741.23
Liabilities to Other Financial Corporations	860.95	823.22	1 212.39	1 410.48
Of which: Deposits Included in Broad Money	315.78	235.88	344.44	391.69
Foreign Liabilities	1.96	6.23	5.52	14.22
Bond Issue	283.21	377.29	369.51	508.43
Paid-in Capital	1 435.55	1 496.18	1 601.24	1 769.00
Other Liabilities	2 923.79	3 235.44	3 591.99	3 831.07
Total Liabilities	45 358.30	50 151.13	52 755.52	57 342.64

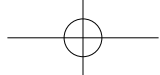


BALANCE SHEET OF RURAL COMMERCIAL BANKS IN 2009

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	5.39	6.51	5.90	6.23
Reserve Assets	1 526.78	1 542.35	1 669.69	2 030.96
Deposits with Central Bank	1 455.09	1 468.86	1 559.00	1 928.96
Cash in Vault	71.68	73.50	110.69	102.00
Claims on Government	689.40	690.67	724.52	806.15
Of which: Central Government	689.40	690.67	724.52	806.15
Claims on Central Bank	258.94	251.26	189.79	238.22
Claims on Other Depository Corporations	1 597.58	1 531.72	1 470.97	2 091.67
Claims on Other Financial Corporations	14.68	16.51	14.86	29.28
Claims on Non-financial Corporations	5 515.08	6 104.94	6 595.70	6 715.02
Claims on Other Resident Sectors	770.12	791.40	842.11	1 000.55
Other Assets	530.75	525.34	559.77	536.32
Total Assets	10 908.72	11 460.70	12 073.30	13 454.39
Liabilities to Non-financial Institutions & Households	8 856.75	9 386.43	10 018.37	11 258.06
Deposits Included in Broad Money	8 823.24	9 352.06	9 978.89	11 208.17
Enterprise Demand Deposits	2 654.27	2 989.06	3 296.56	3 881.69
Enterprise Time Deposits	1 278.77	1 351.59	1 441.23	1 557.30
Household Savings Deposits	4 890.20	5 011.41	5 241.10	5 769.18
Deposits Excluded from Broad Money	22.86	22.31	23.06	23.84
Transferable Deposits	10.76	11.26	11.32	13.14
Other Deposits	12.10	11.04	11.74	10.70
Other Liabilities	10.65	12.06	16.42	26.05
Liabilities to Central Bank	9.64	12.69	14.39	17.69
Liabilities to Other Depository Corporations	918.98	889.64	804.12	691.48
Liabilities to Other Financial Corporations	4.51	1.27	20.80	36.38
Of which: Deposits Included in Broad Money	1.81	0.00	3.61	0.03
Foreign Liabilities	0.00	0.00	0.00	0.00
Bond Issue	29.00	29.00	29.00	67.00
Paid-in Capital	279.03	286.73	293.84	340.63
Other Liabilities	810.81	854.94	892.78	1 043.15
Total Liabilities	10 908.72	11 460.70	12 073.30	13 454.39

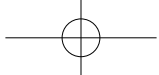


BALANCE SHEET OF FOREIGN-FUNDED BANKS IN 2009

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	1 915.77	1 997.28	1 615.32	1 482.98
Reserve Assets	1 093.71	1 090.64	1 086.15	1 415.13
Deposits with Central Bank	1 086.80	1 084.04	1 078.94	1 407.66
Cash in Vault	6.92	6.61	7.20	7.47
Claims on Government	735.79	1 082.54	1 136.23	1 217.27
Of which: Central Government	735.79	1 082.54	1 136.23	1 217.27
Claims on Central Bank				
Claims on Other Depository Corporations	1 950.66	1 813.32	1 873.44	2 214.18
Claims on Other Financial Corporations	61.86	72.58	77.87	87.70
Claims on Non-financial Corporations	6 139.30	5 944.53	6 170.27	6 332.13
Claims on Other Resident Sectors	155.07	199.00	235.49	301.75
Other Assets	1 356.11	1 320.68	1 214.22	1 299.63
Total Assets	13 408.27	13 520.57	13 408.99	14 350.78
Liabilities to Non-financial Institutions & Households	5 019.63	5 371.02	5 763.92	6 687.64
Deposits Included in Broad Money	3 551.77	3 851.65	4 265.77	5 132.10
Enterprise Demand Deposits	1 209.41	1 418.86	1 413.64	1 856.39
Enterprise Time Deposits	1 955.76	2 029.29	2 449.25	2 855.35
Household Savings Deposits	386.60	403.50	402.89	420.36
Deposits Excluded from Broad Money	1 467.86	1 519.38	1 498.15	1 555.54
Transferable Deposits	804.37	863.56	865.21	944.24
Other Deposits	663.48	655.81	632.94	611.30
Other Liabilities				
Liabilities to Central Bank				
Liabilities to Other Depository Corporations	1 872.00	1 749.80	1 554.35	1 279.09
Liabilities to Other Financial Corporations	567.88	580.93	496.87	412.65
Of which: Deposits Included in Broad Money				
Foreign Liabilities	3 068.63	2 805.86	2 546.85	2 754.65
Bond Issue				
Paid-in Capital	1 225.31	1 314.53	1 365.38	1 425.83
Other Liabilities	1 654.82	1 698.42	1 681.62	1 790.91
Total Liabilities	13 408.27	13 520.57	13 408.99	14 350.78



BALANCE SHEET OF URBAN CREDIT COOPERATIVES IN 2009

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets				
Reserve Assets	108.19	88.74	78.96	80.71
Deposits with Central Bank	101.98	83.38	73.12	76.82
Cash in Vault	6.21	5.36	5.84	3.89
Claims on Government	27.57	13.79	8.95	10.78
Of which: Central Government	27.57	13.79	8.95	10.78
Claims on Central Bank	1.00	0.50	0.50	0.50
Claims on Other Depository Corporations	125.80	92.77	71.93	55.94
Claims on Other Financial Corporations	0.40	0.12	0.12	0.12
Claims on Non-financial Corporations	313.21	217.83	204.31	170.24
Claims on Other Resident Sectors	62.51	61.73	59.85	52.51
Other Assets	96.64	89.16	88.48	75.72
Total Assets	735.32	564.63	513.11	446.52
Liabilities to Non-financial Institutions & Households	642.28	502.89	465.99	394.76
Deposits Included in Broad Money	642.12	502.78	465.88	394.57
Enterprise Demand Deposits	153.46	126.49	125.46	127.64
Enterprise Time Deposits	66.38	39.99	40.92	26.94
Household Savings Deposits	422.28	336.29	299.49	239.98
Deposits Excluded from Broad Money				
Transferable Deposits				
Other Deposits				
Other Liabilities	0.15	0.11	0.11	0.19
Liabilities to Central Bank				
Liabilities to Other Depository Corporations	24.78	11.87	1.68	12.89
Liabilities to Other Financial Corporations	0.00	0.00	0.00	0.01
Of which: Deposits Included in Broad Money				
Foreign Liabilities				
Bond Issue				
Paid-in Capital	29.95	21.57	19.53	16.24
Other Liabilities	38.32	28.31	25.90	22.61
Total Liabilities	735.32	564.63	513.11	446.52



BALANCE SHEET OF RURAL CREDIT COOPERATIVES IN 2009

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	8.57	7.74	8.20	14.97
Reserve Assets	6 979.79	7 018.59	6 983.50	9 366.14
Deposits with Central Bank	6 250.02	6 265.45	6 120.08	8 675.28
Cash in Vault	729.77	753.14	863.42	690.86
Claims on Government	1 016.93	1 113.32	1 085.46	1 061.20
Of which: Central Government	1 016.93	1 113.32	1 085.46	1 061.20
Claims on Central Bank	383.41	320.10	343.78	267.54
Claims on Other Depository Corporations	8 844.89	8 867.26	7 932.52	7 021.08
Claims on Other Financial Corporations	221.27	232.60	241.46	282.16
Claims on Non-financial Corporations	17 167.06	18 875.31	20 087.78	20 003.60
Claims on Other Resident Sectors	13 384.93	14 241.66	14 789.26	14 497.65
Other Assets	3 619.06	3 188.03	3 380.29	3 527.79
Total Assets	51 625.91	53 864.61	54 852.23	56 042.12
Liabilities to Non-financial Institutions & Households	44 204.28	46 034.38	46 633.54	47 466.92
Deposits Included in Broad Money	44 157.72	45 989.31	46 582.12	47 398.24
Enterprise Demand Deposits	7 073.57	8 102.06	8 656.85	9 205.20
Enterprise Time Deposits	2 166.90	2 470.17	2 189.08	2 017.57
Household Savings Deposits	34 917.25	35 417.09	35 736.18	36 175.47
Deposits Excluded from Broad Money	19.48	19.47	20.86	23.08
Transferable Deposits	4.40	4.10	5.83	7.78
Other Deposits	15.08	15.37	15.03	15.30
Other Liabilities	27.08	25.61	30.56	45.60
Liabilities to Central Bank	494.76	568.92	600.69	512.46
Liabilities to Other Depository Corporations	2 126.75	2 284.27	2 318.96	2 295.32
Liabilities to Other Financial Corporations	16.31	46.84	89.92	101.25
Of which: Deposits Included in Broad Money				
Foreign Liabilities				
Bond Issue	0.25	0.10	0.10	0.10
Paid-in Capital	1 903.50	1 912.60	1 956.32	2 102.02
Other Liabilities	2 880.06	3 017.49	3 252.69	3 564.05
Total Liabilities	51 625.91	53 864.61	54 852.23	56 042.12



BALANCE SHEET OF POSTAL SAVINGS BANK OF CHINA IN 2009

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	2.39	0.97	1.06	3.95
Reserve Assets	5 858.89	5 962.79	5 592.44	5 490.52
Deposits with Central Bank	5 590.47	5 722.01	5 294.95	5 204.50
Cash in Vault	268.43	240.78	297.49	286.02
Claims on Government	982.96	986.62	1 130.12	1 310.03
Of which: Central Government	982.96	986.62	1 130.12	1 310.03
Claims on Central Bank	2 038.40	1 853.30	1 704.30	1 705.97
Claims on Other Depository Corporations	10 327.31	10 681.42	10 316.03	11 743.28
Claims on Other Financial Corporations	110.39	93.73	97.44	186.58
Claims on Non-financial Corporations	3 901.53	4 224.28	4 701.46	4 834.80
Claims on Other Resident Sectors	405.45	547.28	844.99	1 303.24
Other Assets	30.68	71.67	580.91	-137.18
Total Assets	23 658.01	24 422.06	24 968.75	26 441.18
Liabilities to Non-financial Institutions & Households	23 195.93	24 069.33	24 539.80	26 150.84
Deposits Included in Broad Money	23 192.06	24 065.15	24 535.35	26 146.01
Enterprise Demand Deposits	537.05	823.16	1 068.41	1 813.91
Enterprise Time Deposits	86.67	150.07	224.83	281.97
Household Savings Deposits	22 568.35	23 091.92	23 242.11	24 050.13
Deposits Excluded from Broad Money	3.87	4.18	4.45	4.83
Transferable Deposits				
Other Deposits	3.87	4.18	4.45	4.83
Other Liabilities				
Liabilities to Central Bank				
Liabilities to Other Depository Corporations	205.23	125.23	140.11	83.46
Liabilities to Other Financial Corporations	10.95	7.36	5.64	19.52
Of which: Deposits Included in Broad Money				
Foreign Liabilities	2.74	2.45	3.46	2.48
Bond Issue				
Paid-in Capital				
Other Liabilities	243.16	217.69	279.73	184.88
Total Liabilities	23 658.01	24 422.06	24 968.75	26 441.18

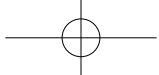


BALANCE SHEET OF FINANCE COMPANIES IN 2009

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	59.87	75.29	61.55	31.26
Reserve Assets	739.98	824.92	911.86	969.82
Deposits with Central Bank	739.94	824.88	911.81	969.79
Cash in Vault	0.04	0.04	0.05	0.03
Claims on Government	123.44	118.97	104.34	107.26
Of which: Central Government	123.44	118.97	104.34	107.26
Claims on Central Bank	6.98		3.34	14.60
Claims on Other Depository Corporations	3 137.38	3 942.63	3 496.09	3 834.22
Claims on Other Financial Corporations	37.87	67.38	58.79	61.81
Claims on Non-financial Corporations	5 070.25	5 458.21	6 319.26	6 778.22
Claims on Other Resident Sectors	65.14	67.72	79.01	95.08
Other Assets	380.86	390.23	383.57	409.92
Total Assets	9 621.76	10 945.35	11 417.80	12 302.18
Liabilities to Non-financial Institutions & Households	7 155.04	8 261.63	8 568.20	9 664.89
Deposits Included in Broad Money	6 912.56	7 980.87	8 328.38	9 210.56
Enterprise Demand Deposits	3 641.74	4 213.85	4 411.82	4 621.41
Enterprise Time Deposits	3 270.81	3 767.03	3 916.55	4 589.15
Household Savings Deposits				
Deposits Excluded from Broad Money	235.37	267.51	212.00	437.25
Transferable Deposits	188.12	200.48	155.33	182.73
Other Deposits	47.25	67.03	56.68	254.52
Other Liabilities	7.11	13.25	27.82	17.08
Liabilities to Central Bank	2.66	2.01	2.18	2.93
Liabilities to Other Depository Corporations	376.58	455.83	506.84	399.02
Liabilities to Other Financial Corporations	203.56	203.58	200.15	71.57
Of which: Deposits Included in Broad Money	0.72	1.28	2.02	6.74
Foreign Liabilities	1.35	4.96	4.48	5.96
Bond Issue	149.88	259.57	312.44	374.11
Paid-in Capital	795.98	801.37	865.23	945.42
Other Liabilities	936.72	956.40	958.28	838.28
Total Liabilities	9 621.76	10 945.35	11 417.80	12 302.18



MONETARY AGGREGATES IN 2009

(Quarter-end Balance)

100 million yuan

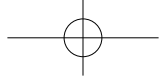
	Q1	Q2	Q3	Q4
Money & Quasi-money (M_2)	530 626.71	568 916.20	585 405.34	606 225.01
Money (M_1)	176 541.13	193 138.15	201 708.14	220 001.51
Currency in Circulation (M_0)	33 746.42	33 640.98	36 787.89	38 245.97
Demand Deposits	142 794.71	159 497.17	164 920.25	181 755.54
Quasi-money	354 085.58	375 778.05	383 697.20	386 223.49
Time Deposits	68 478.41	75 760.31	83 668.16	82 284.92
Household Deposits	243 069.94	249 379.39	255 720.11	260 771.66
Other Deposits	42 537.22	50 638.35	44 308.92	43 166.90

MONETARY AGGREGATES IN 2009

Year-on-year percentage change

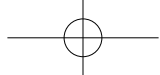
	Q1	Q2	Q3	Q4
Money & Quasi-money (M_2)	25.48	28.45	29.30	27.68
Money (M_1)	17.01	24.77	29.50	32.35
Currency in Circulation (M_0)	10.89	11.46	15.96	11.77
Demand Deposits	18.56	28.00	32.97	37.69
Quasi-money	30.17	30.43	29.20	25.16
Time Deposits	29.86	35.52	37.05	37.74
Household Deposits	29.60	28.28	24.93	19.68
Other Deposits	34.06	33.96	41.80	39.42

Note: On comparable basis.



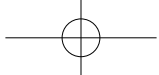
BALANCE OF PAYMENTTS IN 2009

	Line	Balance	Credit	Debit
Current Account	1	2 971	14 846	11 874
Goods & Services	2	2 201	13 333	11 132
Goods	3	2 495	12 038	9 543
Services	4	-294	1 295	1 589
Transportation	5	-230	236	466
Travel	6	-40	397	437
Communication Services	7	0	12	12
Construction Services	8	36	95	59
Insurance Services	9	-97	16	113
Financial Services	10	-3	4	7
Computer & Information Services	11	33	65	32
Royalties & License Fees	12	-106	4	111
Consulting Services	13	52	186	134
Advertising & Public Opinion Polling	14	4	23	20
Audio-visual & Related Services	15	-2	1	3
Other Business Services	16	59	247	188
Government Services, n.i.e	17	1	9	8
Income	18	433	1 086	653
Compensation of Employees	19	72	92	21
Investment Income	20	361	994	632
Current Transfers	21	337	426	89
General Government	22	-2	0	3
Other Sectors	23	340	426	86
Capital & Financial Account	24	1 448	7 464	6 016
Capital Account	25	40	42	2
Financial Account	26	1 409	7 422	6 014
Direct Investment	27	343	1 142	799
Abroad	28	-439	42	481
From Abroad	29	782	1 100	318
Portfolio Investment	30	387	981	594
Assets	31	99	669	570
Equity Securities	32	-338	122	461
Debt Securities	33	437	547	110
Bonds & Notes	34	370	479	110
Money Market Instruments	35	67	68	0



100 million U.S. dollars

	Line	Balance	Credit	Debit
Liabilities	36	288	312	24
Equity Securities	37	282	288	7
Debt Securities	38	6	23	17
Bonds & Notes	39	6	23	17
Money Market Instrument	40	0	0	0
Other Investment	41	679	5 299	4 620
Assets	42	94	1 174	1 080
Trade Credits	43	-544	0	544
Long-term	44	-38	0	38
Short-term	45	-506	0	506
Loans	46	130	450	320
Long-term	47	-315	0	315
Short-term	48	445	450	5
Currency & Deposits	49	52	267	216
Other Assets	50	456	457	1
Long-term	51	0	0	0
Short-term	52	456	457	1
Liabilities	53	585	4 125	3 540
Trade Credits	54	321	321	0
Long-term	55	22	22	0
Short-term	56	298	298	0
Loans	57	37	3 222	3 185
Long-term	58	-97	135	232
Short-term	59	134	3 087	2 953
Currency & Deposits	60	116	456	340
Other Liabilities	61	111	126	15
Long-term	62	110	110	0
Short-term	63	1	16	15
Reserve Assets	64	-3 984	0	3 984
Monetary Gold	65	-49	0	49
Special Drawing Rights	66	-111	0	111
Reserve Position in IMF	67	-4	0	4
Foreign Exchange	68	-3 821	0	3 821
Other Claims	69	0	0	0
Net Errors & Omissions	70	-435	0	435



INTERNATIONAL LIQUIDITY

Millions of the U.S. dollars

	2006	2007	2008	2009
Total Reserves (Minus Gold)	1 068 538	1 530 279	1 949 260	2 414 131
SDRs	1 113	1 190.79	1 199.24	12 509.61
Reserve Position in IMF	1 081	839.45	2 030.71	2 469.20
Foreign Exchange	1 066 344	1 528 249	1 946 030	2 399 152
Gold (Million Ounce)	19.29	19.29	19.29	33.89
Gold (National Valuation)	4 074	4 074	4 074	9 815
Foreign Liabilities of Other Depository Corporations	68 094	82 676	75 255	70 080

Note: The PBC made adjustments to RMB purchase of gold in April 2009.

GOLD AND FOREIGN EXCHANGE RESERVES

	Gold (10 Thousand Ounce)	Foreign Exchange Reserves (100 Million US Dollars)	Change in Foreign Exchange Reserves (%)
1997	1 267	1 398.9	33.2
1998	1 267	1 449.6	3.6
1999	1 267	1 546.8	6.7
2000	1 267	1 655.7	7.0
2001	1 608	2 121.7	28.1
2002	1 929	2 864.1	35.0
2003	1 929	4 032.5	40.8
2004	1 929	6 099.3	51.3
2005	1 929	8 188.7	34.3
2006	1 929	10 663.4	30.2
2007	1 929	15 282.5	43.3
2008	1 929	19 460.3	27.3
2009	3 389	23 991.5	23.3



THE EXCHANGE RATES OF RMB (YUAN)

	2006				2007			
	USD	HKD	JPY	EUR	USD	HKD	JPY	EUR
End-period Rate (RMB/Per Unit of Foreign Currency)	7.8087	1.0047	6.5630	10.2665	7.3046	0.9364	6.4064	10.6669
Change of Basis Points	-2 615	-361	-3 905	5 574	-5 027	-660	-1 368	3 887

Continued

	2008				2009			
	USD	HKD	JPY	EUR	USD	HKD	JPY	EUR
End-period Rate (RMB/Per Unit of Foreign Currency)	6.8346	0.8819	7.565	9.659	6.8282	0.8805	7.3782	9.7971
Change of Basis Points	-4 650	-534.5	10 344	-10 021	-64	-14	-1 868	1 381

Note: The exchange rate of RMB (yuan) against Japanese yen: RMB/100 Japanese yen.



BRIEF TABLE OF CHINA'S EXTERNAL DEBT, END~2009

Thousands of the U.S. dollars

Debtor/Debt	Loans from Foreign Governments	Loans from International Financial Institutions	Loans from Foreign Banks and Other Financial Institutions	Buyers' Credit	Loans from Foreign Exporters, Enterprises and Individuals	Bonds Issued Abroad	Trade Related Credit
Ministries under the State Council		32 546 869	500 253			3 807 760	
Chinese-funded Financial Institutions*	34 923 029		4 061 699	4 327 624	10 296	5 509 855	37 631 346
Foreign-funded Financial Institutions		79 259	29 794 491		630 844		610 435
Foreign-funded Enterprises		725 824	12 123 651	403 984	74 766 944		
Chinese-funded Enterprises		23 453	461 684	88 685	353 640	1 509 768	
Others			359		304 553		
Trade Credits							
Total	34 923 029	33 375 405	46 942 137	4 820 293	76 066 277	10 827 383	38 241 781

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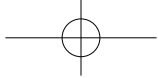
Debtor/Debt	Non-resident Deposits	International Financial Leasing	Liabilities to be Paid with Foreign Exchange in Compensation Trade	Trade Credits	Others	Total
Ministries under the State Council						36 854 882
Chinese-funded Financial Institutions*	7 423 470	7 143			184 126	94 078 588
Foreign-funded Financial Institutions	7 165 699				59 531	38 340 259
Foreign-funded Enterprises		4 935 176	2 814		222 816	93 181 209
Chinese-funded Enterprises		1 645 055	95 506		5 871	4 183 662
Others					3 225	308 137
Trade Credits				161 700 000		161 700 000
Total	14 589 169	6 587 374	98 320	161 700 000	475 569	428 646 737

Note: *Loans from foreign governments to Chinese-funded financial institutions (mainly referring to state-owned commercial banks and policy banks) are actually sovereign debt borrowed by the Ministry of Finance on behalf of the Chinese Government.



RMB INTEREST RATES IN 2009

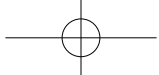
	Percent per annum	
	January 1, 2009	December 31, 2009
Benchmark Rates		
Required Reserves	1.62	1.62
Excess Reserves	0.72	0.72
Loans to Financial Institutions		
20 Days or Less	2.79	2.79
3 Months or Less	3.06	3.06
6 Months or Less	3.24	3.24
1 Year	3.33	3.33
Required Reserves	1.80	1.80
Official Interest Rates on Deposits & Loans of Financial Institutions		
Interest Rates on Deposits		
Demand Deposits	0.36	0.36
Time Deposits		
3 Months	1.71	1.71
6 Months	1.98	1.98
1 Year	2.25	2.25
2 Years	2.79	2.79
3 Years	3.33	3.33
5 Years	3.60	3.60
Interest Rates on Loans		
6 Months (Including 6 Months)	4.86	4.86
6 Months ~1 Year (Including 1 Year)	5.31	5.31
1~3 Years (Including 3 Years)	5.40	5.40
3~5 Years (Including 5 Years)	5.76	5.76
Longer than 5 Years	5.94	5.94
December Weighted Average Rate in Interbank Market		
Interbank Borrowing		1.2534
Pledged Bond Repos		1.2631



INTEREST RATES ON SMALL-VALUE US DOLLAR DEPOSITS

Percent per annum							
	Demand Deposits	Deposits at 7 Days' Notice	1 Month	3 Months	6 Months	1 Year	2 Years
Jan. 5, 2001	1.5000	2.5625	3.6875	3.8750	4.0625	4.1250	4.1875
Feb. 7, 2001	1.5000	2.4375	3.4375	3.6250	3.7500	3.8125	3.8750
Mar. 29, 2001	1.0000	2.0000	3.0625	3.2500	3.3750	3.4375	3.5000
May 1, 2001	1.0000	1.1825	2.6250	2.7500	2.9375	3.0000	3.0625
May 23, 2001	1.0000	1.6875	2.3750	2.5000	2.6250	2.6875	2.7500
Jul. 5, 2001	1.0000	1.6250	2.2500	2.3750	2.4375	2.5000	2.5625
Aug. 30, 2001	0.7500	1.3750	2.0000	2.1250	2.1875	2.3125	2.3750
Sep. 22, 2001	0.5000	1.1438	1.7875	1.1925	1.9375	2.0000	2.0625
Nov. 12, 2001	0.4375	0.8125	1.1500	1.1625	1.1875	1.2500	1.2500
Jul. 2, 2003	0.1250	0.2500	0.5000	0.5625	0.6875	0.8125	0.9375
Nov. 18, 2004	0.0750	0.1250	0.2500	0.4375	0.5000	0.5625	0.6875
May 20, 2005	0.0750	0.2500	0.3750	0.6250	0.7500	0.8750	
Jul. 22, 2005	0.0750	0.2500	0.6250	0.8750	1.0000	1.1250	
Aug. 23, 2005	0.2750	0.5000	1.2500	1.7500	1.8750	2.0000	
Oct. 15, 2005	0.7750	1.0000	1.7500	2.2500	2.3750	2.5000	
Dec. 28, 2005	1.1500	1.3750	2.2500	2.7500	2.8750	3.0000	

Note: No adjustments in the year of 2006, 2007, 2008 and 2009.



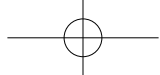
MONEY MARKET STATISTICS

100 million yuan

	2006	2007	2008	2009
Interbank Borrowing	21 503.10	106 465.70	150 491.84	193 504.97
Interbank Repurchase	265 912.80	447 925.00	581 205.24	702 898.69
Interbank Securities Trading	102 563.90	156 043.40	371 157.71	472 654.96
Repurchase in Shanghai Stock Exchange	9 092.77	1 845.08	24 268.65	35 475.87
Repurchase in Shenzhen Stock Exchange	0.00	0.00	0.00	0.00
Securities Trading in Shanghai Stock Exchange	1 537.39	1 195.49	2 075.90	2 054.90
Securities Trading in Shenzhen Stock Exchange	3.32	5.10	46.62	30.21

STOCK MARKET STATISTICS

	2006	2007	2008	2009
Year-end Close Index				
Shanghai Composite Index (Dec.19, 1990=100)	2 675.47	5 261.56	1 820.81	3 277.14
Shenzhen Component Index (Jul.20, 1994=100)	6 647.14	17 700.62	6 485.51	13 699.97
Stock Exchange				
Number of Shares Issued in Shanghai Stock Exchange (100 Million)	10 279.54	14 173.10	15 410.39	16 659.96
Number of Shares Issued in Shenzhen Stock Exchange (100 Million)	2 375.83	2 781.72	3 441.86	3 907.56
Total Market Value in Shanghai Stock Exchange (100 Million Yuan)	71 612.38	269 838.90	97 251.91	184 655.23
Total Market Value in Shenzhen Stock Exchange (100 Million Yuan)	17 791.52	57 302.02	24 114.53	59 283.89
Total Market Value of Tradable Shares in Shanghai Stock Exchange (100 Million Yuan)	16 428.33	64 532.17	32 305.91	114 805.00
Total Market Value of Tradable Shares in Shenzhen Stock Exchange (100 Million Yuan)	8 575.31	28 532.18	12 907.99	36 453.65
Daily Average Trading Volume in Shanghai Stock Exchange (100 Million Yuan)	68.17	1 262.13	733.46	1 420.13
Daily Average Trading Volume in Shenzhen Stock Exchange (100 Million Yuan)	35.58	641	352.37	776.54
Capitalization (IPO, Rights Issue & Convertible Bonds, 100 Million Yuan)	5 592.89	8 521.50	3 656.70	6 084.27
Year-end Number of Listed Companies	1 434	1 550	1 604	1 718



FLOW OF FUNDS ACCOUNTS IN 2008

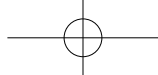
(Financial Transaction Account)

	No.	Households		Non-financial Corporations		Central Government		Financial Institutions	
		Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources
Net Financial Investment	1	50 290	0	-27 546	0	61	0	8 490	0
Financial Uses	2	57 302		30 415		5 858		131 280	
Financial Sources	3		7 012		57 960		5 797		122 790
Currency	4	3 413	0	370	0	82	0	0	4 112
Renminbi	5	3 413	0	370	0	82	0	0	4 112
Foreign Currencies	6	0	0	0	0	0	0	0	0
Deposits	7	46 543	0	23 419	0	5 731	0	3 936	77 381
Demand Deposits	8	239	0	5 658	0	3 312	0	0	9 208
Time Deposits	9	0	0	16 479	0	2 076	0	0	18 555
Household Deposits	10	45 353	0	0	0	0	0	0	45 353
Fiscal Deposits	11	0	0	0	0	269	0	0	269
Foreign Exchange Deposits	12	-108	0	729	0	-12	0	2 314	489
Other Deposits	13	1 059	0	553	0	87	0	1 622	3 507
Loans	14	0	7 012	0	42 092	0	672	52 096	1 517
Short-term Loans	15	0	2 910	0	12 316	0	0	15 226	0
Medium & Long-term Loans	16	0	4 102	0	21 693	0	0	25 795	0
Foreign Exchange Loans	17	0	-0	0	-1 725	0	2	597	1 517
Other Loans	18	0	0	0	9 808	0	670	10 478	0
Securities	19	1 748	0	87	8 733	0	1 027	27 641	20 236
Bonds	20	-613	0	87	5 341	0	1 027	27 132	20 236
Government Bonds	21	-922	0	5	0	0	1 027	1 945	0
Financial Bonds	22	0	0	72	0	0	0	8 854	8 926
Central Bank Bonds	23	0	0	0	0	0	0	11 311	11 311
Corporate Bonds	24	309	0	10	5 341	0	0	5 023	0
Shares	25	2 361	0	0	3 392	0	0	509	0
Securities Investment Funds	26	2 936	0	8	0	44	0	332	3 336
Margin Deposits with Securities Trading Accounts	27	-5 340						0	-5 340
Insurance Technical Reserves	28	8 084	0	493	0	0	4 097	0	4 480
Settlement Funds	29	0	0	0	0	0	0	0	0
Inter-financial Institutions Accounts	30	0	0	0	0	0	0	-4 197	-5 206
Required & Excessive Reserves	31	0	0	0	0	0	0	21 100	21 100
Cash in Vault	32	0	0	0	0	0	0	50	50
Central Bank Loans	33	0	0	0	0	0	0	-485	-485
Miscellaneous (Net)	34	-81		1 610		0			1 529
Foreign Direct Investments	35	0	0	3 716	10 271	0	0	0	0
Changes in Other Foreign Assets & Debts	36	0	0	713	-1 322	0	0	1 688	80
Changes in Reserve Assets	37	0	0	0	0	0	0	29 119	0
Errors & Omissions in the BOP	38	0	0	0	-1 814	0	0	0	0



100 million yuan

All Domestic Sectors		The Rest of the World		Total		No.	
Uses	Sources	Uses	Sources	Uses	Sources		
31 296	0	-31 296	0	0	0	1	Net Financial Investment
224 854		10 456		235 310		2	Financial Uses
	193 558		41 752		235 310	3	Financial Sources
3 865	4 112	247	0	4 112	4 112	4	Currency
3 865	4 112	247	0	4 112	4 112	5	Renminbi
0	0	0	0	0	0	6	Foreign Currencies
79 629	77 381	163	2411	79 792	79 792	7	Deposits
9 208	9 208	0	0	9 208	9 208	8	Demand Deposits
18 555	18 555	0	0	18 555	18 555	9	Time Deposits
45 353	45 353	0	0	45 353	45 353	10	Household Deposits
269	269	0	0	269	269	11	Fiscal Deposits
2 923	489	-23	2411	2 900	2 900	12	Foreign Exchange Deposits
3 322	3 507	186	0	3 507	3 507	13	Other Deposits
52 096	51 293	2 016	2 820	54 112	54 112	14	Loans
15 226	15 226	0	0	15 226	15 226	15	Short-term Loans
25 795	25 795	0	0	25 795	25 795	16	Medium & Long-term Loans
597	-206	2 016	2 820	2 613	2 613	17	Foreign Exchange Loans
10 478	10 478	0	0	10 478	10 478	18	Other Loans
29 475	29 997	522	0	29 997	29 997	19	Securities
26 605	26 605	0	0	26 605	26 605	20	Bonds
1 027	1 027	0	0	1 027	1 027	21	Government Bonds
8 926	8 926	0	0	8 926	8 926	22	Financial Bonds
11 311	11 311	0	0	11 311	11 311	23	Central Bank Bonds
5 341	5 341	0	0	5 341	5 341	24	Corporate Bonds
2 870	3 392	522	0	3 392	3 392	25	Shares
3 320	3 336	16	0	3 336	3 336	26	Securities Investment Funds
-5 340	-5 340			-5 340	-5 340	27	Margin Deposits with Securities Trading Accounts
8 577	8 577	0	0	8 577	8 577	28	Insurance Technical Reserves
0	0	0	0	0	0	29	Settlement Funds
-4 197	-5 206	276	1 286	-3 921	-3 921	30	Inter-financial Institutions Accounts
21 100	21 100	0	0	21 100	21 100	31	Required & Excessive Reserves
50	50	0	0	50	50	32	Cash in Vault
-485	-485	0	0	-485	-485	33	Central Bank Loans
1 529	1 529	0		1 529	1 529	34	Miscellaneous (Net)
3 716	10 271	10 271	3 716	13 987	13 987	35	Foreign Direct Investments
2 401	-1 242	-1 242	2 401	1 159	1 159	36	Changes in Other Foreign Assets & Debts
29 119	0	0	29 119	29 119	29 119	37	Changes in Reserve Assets
0	-1 814	-1 814	0	-1 814	-1 814	38	Errors & Omissions in the BOP



NOTES TO THE SECTORS AND ITEMS IN FLOW OF FUNDS ACCOUNTS

Introduction to the Flow of Funds Accounts There are some changes over the basic data of BOP in terms of sectors categories that are used for compiling the Flow of Funds Accounts of 1997. Therefore, some financial transaction categories of Flow of Funds Accounts of 1997 are adjusted. Specific changes are as follows: The scopes of the Foreign Exchange Deposits and Loans are adjusted; The transaction category of international capital account, including two sub-items, Short-term Capital and Long-term Capital, is deleted; Transaction categories for Foreign Direct Investment and the Changes in Other Foreign Assets and Debts are added. From 2006, two items namely Securities Investment Funds and Margin Deposits with Securities Trading Accounts were added to the transaction categories.

Flow of Funds Accounts^① Presented in matrix format, Flow of Funds Accounts encompasses all financial transactions among domestic sectors and with the rest of the world. In the accounts, all institutional units are grouped under five sectors: households, non-financial corporations, general government, financial institutions and the rest of the world, and all financial transactions are mainly classified by financial instruments. The sectors and financial transactions are listed on the rows and columns of the matrix respectively. The double entry flow of funds accounting is based on an accrual basis. All flows are measured according to their exchanges value. The terms "sources" and "uses" are employed to reflect the changes in liabilities and in financial assets of each sector.

Households Includes urban households, rural household and individual enterprises. The sector is mainly engaged in final consumption, self-served production and some market-oriented production activities.

Non-financial Corporations Consists of profit-making resident corporations whose principal activity is the production of goods and non-financial services.

General Government Includes central government, local governments and social security funds. They produce and supply non-market output for public and individual consumption. They also bear the responsibilities of redistribution of national income and wealth.

Financial Institutions Includes central bank, banks and other financial institutions. They supply financial service including insurance.

The Rest of the World Non-resident units which have financial transactions with resident units.

Financial Uses The total of amounts in the uses column of each sector.

Financial Sources The total of amounts in the sources column of each sector.

Net Financial Investment The differences between financial uses and financial sources.

Currency Notes and coins in circulation.

Renminbi Currency Notes and coins in circulation issued by the resident monetary authority (the PBC).

Foreign Currencies Notes and coins in circulation issued by non-resident monetary authorities and held by residents.

Deposits All types of deposits denominated in local and foreign currencies, including demand deposits, time deposits, savings deposits, fiscal deposits, foreign exchange deposits and others.

Demand Deposits Deposits which can be withdrawn on demand.

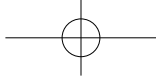
Time Deposits Deposits that are not immediately disposable because they are subject to a fixed term or a period of prior notice before withdrawal.

Savings Deposits Deposits of households with financial institutions and postal department.

Fiscal Deposits Deposits of the central government with the central bank.

Foreign Exchange Deposits Foreign exchange denominated deposits of non-financial residents with domestic financial institutions and the rest of the world, and those of non-residents with domestic financial institutions.

① Some financial transactions are not accounted temporarily, such as equity, trade credit and some accounts receivable/payable.



Other Deposits Designated deposits, trust deposits, margin account deposits and deposits which are not classified elsewhere.

Loans All kinds of Loans including short-, medium- and long-term loans, fiscal loans, foreign exchange loans and other loans.

Short-term Loans Loans with a short-term (usually within one year) maturity.

Medium-and Long-term Loans Loans with a long-term (usually beyond one year) maturity to enterprises and households.

Fiscal Loans Lending by the central bank to the government or overdraft of the central government on the accounts with the central bank.

Foreign Exchange Loans Loans in foreign currencies by domestic financial institutions to non-financial residents and the rest of the world, and those to residents by the rest of the world.

Other Loans Designated loans, trust loans, financial leasing and loans which are not classified elsewhere.

Securities^① All bonds and shares.

Bonds Negotiable and bearer instruments which give the holder the unconditional right to a fixed or contractually determined variable interest on a specified date or dates, and do not grant the holder any ownership rights in the institutional unit issuing them. They include government and public bonds, financial bonds, central bank bonds and corporate bonds.

Government and Public Bonds Bonds issued by the government.

Financial Bonds Bonds issued by the financial institutions excluding the central bank.

Central Bank Bonds Bonds issued by the central bank.

Corporate Bonds Bonds issued by the corporate businesses.

Shares^② Listed shares in domestic and foreign markets issued by listed companies.

Insurance Technical Reserves Consists of net equity of households in life insurance reserves and in pension funds reserves, prepayments of insurance premiums, and reserves for outstanding claims.

Settlement funds Funds in float.

Inter-financial Institutions Accounts Consists of nostro and vostro accounts, interbank lending and securities repurchase among financial institutions.

Required and Excessive Reserves Financial institutions' deposits with the PBC and required reserves.

Cash in vault Local and foreign cashes reserved for business by banks.

Central Bank Lending Lending to financial institutions by the PBC.

Miscellaneous (Net) Other Domestic financial transactions not included elsewhere.

Foreign Direct Investment The investments from abroad by the rest of the world and that in the rest of the world by domestic residents.

Other Direct Assets and Debts The foreign assets and debts that are not included in Foreign Exchange Deposits and Loans or in Reserve Assets.

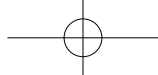
Changes in Reserve Assets Consists of gold, foreign exchange, special drawing rights, reserve positions with IMF and Other Assets.

Errors and Omissions in the Balance of Payments^③ Arising from insufficient coverage, the differences of accounting timing, scope, classification, valuation and source materials with the process of compiling the Balance of Payments.

① Equity and unlisted shares are not included temporarily.

② Only includes listed shares.

③ Because it is difficult to identify the proportion of this item on the current account to that on the capital account, all the errors and omissions in the Balance of Payments are presented on the Flow of Funds Accounts temporarily.



FLOW OF FUNDS IN 2008

In 2008, the fund flow volume in the whole society of China totaled 23.5 trillion yuan, increased by 2 trillion yuan or 9.6 percent^① compared with last year. The growth rate slowed down noticeably. The total financing volume of domestic non-financial sector reached 7.1 trillion yuan, of which the leading status of loan financing was strengthened, whereas the proportions of stock financing and overseas financing both decreased. Significant change has taken place in the structure of incremental financial assets of households, with noticeable characteristic of increased holding of deposit assets and decreased holding of stock-related financial assets. Corporate sector experienced an enlarged shortage of funds with a steady growth of financing scale, and the most distinctive change in financial structure was the high increase in bank loans. The fund surplus of government sector decreased compared with the previous year. The net overseas financial assets volume was enlarged, and the capital outflow further increased with growth rate slowed down.

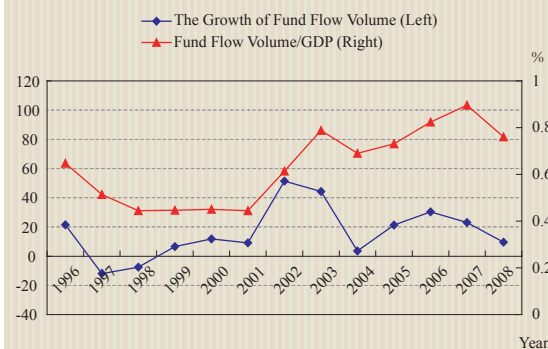
Overall Situation of Flow of Funds in 2008

The growth of fund flow volume in the whole society slowdown sharply

In 2008, the fund flow volume in the whole society allocated through financial markets totaled 23.5 trillion yuan, increased by 2.1 trillion yuan or 9.6 percent compared with 2007. The growth rate, shrunk by 13.4 percentage points year on year, or 3.5 percentage points lower than the growth rate of nominal GDP, reached the lowest level starting from 2005. The ratio between the fund flow volume

in the whole society and GDP was 78.3 percent in 2008, 5.1 percentage points^② lower than that of 2007 year on year. Totally, there was a sharp slowdown of fund flow growth in the whole society in 2008 (Figure 17)

Figure 17 The Growth of Fund Flow Volume, Fund Flow Volume/GDP



Source: The PBC.

The slowdown of the growth of fund flow would mainly attribute to the impact of financial crisis. Firstly, the economy growth slowed down and the demand for funds shrunk evidently. Real GDP of China grew by 9 percent in 2008, 2.9 percentage points lower than that of the previous year, which witnessed the lowest growth rate since 2002. Secondly, the increase of investment in capital-intensive industries declined, leading to a significant decrease of fund demand. In 2008, the investment in real-estate development totaled 3.1 trillion yuan, up by 23.4 percent year on year, 6.8 percentage points lower than that of 2007. Thirdly, both the inflow rate of international capital and the outflow rate of overseas investment declined. In 2008, incremental

①Deducting 1.55 trillion yuan of special treasury bonds issuance, same hereinafter.

②Pre-census data.



international reserve assets and other claims and liabilities excluding FDI was 2 911.9 billion yuan and 115.9 billion yuan respectively, decreased by 349.9 billion yuan and 922.6 billion yuan compared with last year, or down by 10.7 and 88.8 percent year on year respectively. Fourthly, the stock-related fund flow decreased significantly due to the sharp falling of stock market. Fifthly, the growth of government sector's fiscal revenues slowed down, whereas the expenditures accelerated. Large amount of previously accumulated surplus was used to cover the financial deficit. The revenue from issuance of government bonds decreased by 76.5 billion yuan compared with that of last year and government sector's deposits decreased significantly.

Structural change in the financing of domestic non-financial sector was reflected by the strengthening of leading status of loan financing, by the significant improvement in the allocation function of bond financing, and by the decrease in the proportions of stock financing and overseas financing

In 2008, the financing volume by domestic non-financial sector (including households, non-financial corporations and general government, same hereinafter)

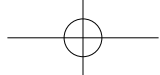
totaled 7.1 trillion yuan, up by 685.5 billion yuan or 10.7 percent year on year, 20.7 percentage points lower compared with that of 2007.

Compared with the previous year, loan financing reached 4.98 trillion yuan, up by 1.1 trillion yuan or 29.5 percent; bond financing, including government bonds and corporate bonds, reached 636.8 billion yuan, up by 239.9 billion yuan or 60.4 percent; social security fund financing reached 409.7 billion yuan, up by 64.6 billion yuan or 18.7 percent. However, stock financing decreased to 339.2 billion yuan, 219.1 billion yuan less than that of 2007, down by 39.2 percent year; overseas financing inclusive of FDI decreased to 894.9 billion yuan, 235.3 billion yuan less than that of 2007, down by 20.8 percent (See Table).

As of financing structure, it showed that the leading status of loan financing was strengthened and the fund allocation function of bond financing was significantly improved, while the proportions of stock financing and overseas financing declined sharply. In 2008, loan financing, bond financing, stock financing, social security fund financing, overseas financing and other financing channels accounted for 70.3, 9, 4.8, 5.8, 12.6 and minus 2.5 percent of total financing respectively for domestic

The Financing of Domestic Non-financial Sector in Domestic Financial Markets

	2005		2006		2007		2008	
	Volume	Proportion	Volume	Proportion	Volume	Proportion	Volume	Proportion
Total Financing	37 868	100	48 652	100	63 914	100	70 769	100
Loans	22 949	60.6	33 173	68.2	38 451	60.2	49 775	70.3
Bonds	5 007	13.2	4 941	10.2	3 969	6.2	6 368	9.0
Government Bonds (Excluding Special Bonds)	2 997	7.9	2 675	5.5	1 792	2.8	1 027	1.5
Corporate Bonds	2 010	5.3	2 266	4.7	2 177	3.4	5 341	7.5
Equities	1 075	2.8	2 814	5.8	5 583	8.7	3 392	4.8
Social Security Fund	1 650	4.4	1 478	3.0	3 451	5.4	4 097	5.8
Foreign Direct Investment	6 482	17.1	6 226	12.8	9 248	14.5	10 271	14.5
Other External Claims & Liabilities	2 080	5.5	1 047	2.2	2 054	3.2	-1 322	-1.9
Others	-1 373	-3.6	-1 027	-2.1	1 158	1.8	-1 813	-2.5

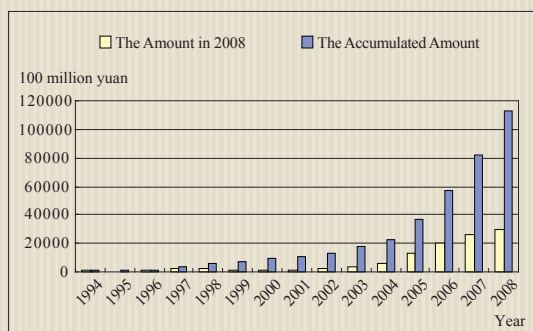


non-financial sector, the proportions of loan, bond and social security fund financing up by 10.1, 2.8 and 0.4 percentage points year on year respectively, whereas the proportions of stock, overseas and other financing channels down by 3.9, 5.1 and 4.3 percentage points year on year. The proportion of loan financing reached the historical highest level since 2003, and that of stock declined to the level in 2004.

Net overseas financial assets^① continued to expand, with growth rate declined

The year of 2008 witnessed a large amount of overseas fund surplus with the growth rate declined remarkably. Net overseas financial assets newly formed during the year amounted to 3.13 trillion yuan, up by 572.3 billion yuan or 22.3 percent year on year, which was 12.4 percentage points less than that of 2007. The flow of funds chart showed that the accumulated overseas use of domestic funds had reached 11.36 trillion yuan since 1994 (Figure 18).

Figure 18 The Overseas Use of Domestic Funds, 1994–2008



Source: The PBC.

The Characteristics of Flow of Funds of Different Sectors

Significant change has taken place in the structure

of incremental financial assets of household sector, with noticeable characteristic of decreased holding of stock-related financial assets and increased holding of deposit assets. The indebtedness level for household sector declined evidently

In 2008, households' net investment in financial assets (the difference between incremental financial assets and incremental financial liabilities), increased to 5 trillion yuan, up by 2.7 trillion yuan from the previous year. The surplus level for household sector improved significantly, which would mainly attribute to the large decrease of households' liabilities of the current year.

The households' financial assets increased by 5.7 trillion yuan, 2.2 trillion yuan higher than that of 2007 or up by 63.3 percent, which witnessed a rapid growth. However, in consideration of the factor that stock-related financial assets shrank dramatically in 2008, the households' incremental financial assets was 396.3 billion yuan less than that of 2007, decreased by 11.3 percent. From the perspective of structure, the proportion of deposit assets increased noticeably, whereas the proportion of stock-related financial assets got significant decrease. In 2008, the households' deposits increased by 4.7 trillion yuan, accounting for 81.2 percent of the households' incremental financial assets, up by 51.5 percentage points compared with that of 2007. The stock-related financial assets (including stock, shares in securities investment fund and clients' margin deposits at securities firms) decreased by 4.2 billion yuan, whereas 1.46 trillion yuan's increase was experienced in the previous year. The change in structure of households' financial assets was due to the weakening of motivation for holding stock-related assets and the strengthening desire for holding deposit assets with stable earnings, triggered by the sharp decline of stock price.

The households' incremental financial liabilities (wholly comprised of bank loans) amounted to 701.2 billion yuan, down by 496.7 billion yuan or 41.5 percent

① Net overseas financial assets are defined as the balance of capital and financial items plus that of reserved assets.



year on year. The decrease of households' incremental liabilities would mainly attribute to the weakening of desire for house purchase and therefore the declining of housing loans for household sector. From the perspective of structure, the medium and long-term loans increased by 410.2 billion yuan, accounting for 58.5 percent of households' total incremental liabilities, 12.8 percentage points lower compared with that of 2007. The short-term loans grew by 291 billion yuan, accounting for 41.5 percent of the total incremental liabilities, 12.8 percentage points higher compared with 2007 (Figure 19).

At the end of 2008, the financial asset-liability ratio of household sector (balance of financial liabilities against balance of financial assets, same hereinafter) was 16.1 percent, 2.2 percentage points higher than 2007. The ratio of incremental financial liabilities against incremental financial assets was 12.2 percent, decreased by 21.9 percentage points against that of 2007. The change in ratio of household sector's financial liabilities against financial assets has close relationship with households' housing investment and consumption. The total selling area of commercial housing in 2008 decreased by 20.3 percent year on year, down by 45.4 percentage points compared with that of 2007. The household sector's consumption

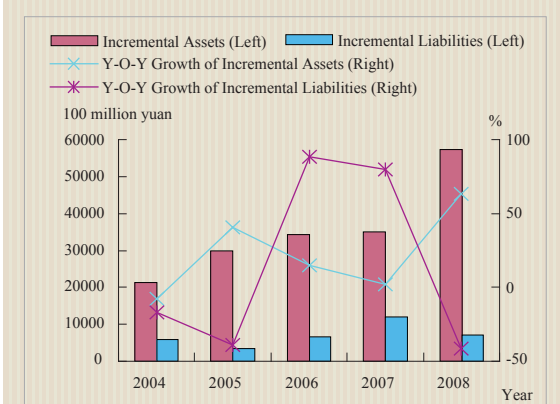
expenditure increased by 15.8 percent year on year, down by 0.5 percentage points. The impact on investment and consumption behaviors of households from the dramatic change of the relationship between financial assets and liabilities deserve more attention .

Non-financial corporate sector experienced an enlarged shortage of funds due to the slowdown of the increase of incremental financial assets. The sector's financing volume grew stably and the most distinctive change in financing structure was the substantial increase in bank loans

In 2008, the incremental financial assets of non-financial corporate sector (abbr. corporate sector, same hereinafter) amounted to 3 trillion yuan, 482.2 billion yuan or 13.7 percent less than that of 2007. The decrease of the sector's incremental financial assets in 2008 was mainly affected by the world financial crisis, which slashed the profits of enterprises, and led to the decrease of enterprises' incremental deposits. The corporate sector's incremental deposits amounted to 2.3 trillion yuan in 2008, 513.7 billion yuan or 18 percent less than the previous year, accounting for 77 percent of total incremental financial assets for corporate sector, down by 4 percent points compared with that of 2007.

The incremental financial liabilities of corporate sector amounted to 5.8 trillion yuan in 2008, up by 1.1 trillion yuan or 24.1 percent year on year, which achieved an approximately same growth rate as of 2007. In the view of financing structure, bank loans newly issued amounted to 4.2 trillion yuan, up by 1.6 trillion yuan or 59 percent compared with that of 2007, accounting for 72.6 percent of total incremental liabilities, 15.9 percentage points higher than the proportion of the previous year. FDI in 2008 reached 1.0271 trillion yuan, up by 49.3 billion yuan or 5 percent year on year, accounting for 17.7 percent of total incremental liabilities, or 2.1 percentage points lower than that of 2007. Stock financing reached 339.2 billion yuan, decreased by 219.1 billion yuan, accounting for 5.9 percent of total incremental liabilities,

Figure 19 The Total Households' Incremental Financial Assets and Liabilities, and Their Changes



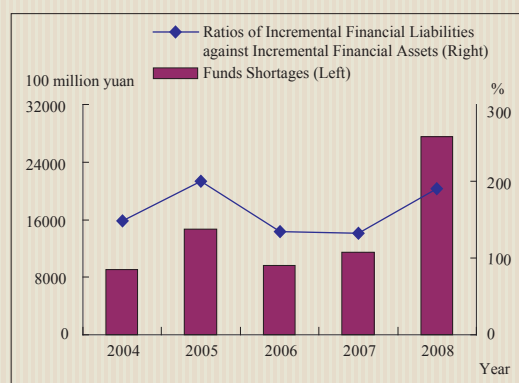
Source: The PBC.



6 percentage points less than that of 2007.

The net financial liabilities (i.e. incremental financial liabilities minus incremental financial assets, or disposable income minus capital formation) of corporate sector in 2008 amounted to 2.8 trillion yuan, up by 1.6 trillion yuan or 140 percent year on year. The ratio of incremental financial liabilities against incremental financial assets reached 190.6 percent, 58.1 percentage points higher than that of the previous year (Figure 20).

Figure 20 Funds Shortages and Ratio Changes of Incremental Financial Liabilities against Incremental Assets of the Corporate Sector



Source: The PBC.

For general government sector, the growth of fiscal revenues slowed down, while expenditures accelerated, resulting in a decreased fund surplus compared with the previous year

The incremental financial assets of government sector amounted to 585.8 billion yuan, down by 834.6 billion yuan or 58.8 percent year on year, in which, deposits increased by 573.1 billion yuan, 722.6 billion yuan less than 2007. The incremental financial liabilities of the sector amounted to 579.7 billion yuan, 56.3 billion yuan higher than that of 2007, in which bank loans increased by 67.2 billion yuan, up by 67.1 billion yuan year on year; government bonds increased by 102.7 billion yuan, down by 76.5 billion yuan year on year; social security

funds increased by 409.7 billion yuan, up by 64.6 billion yuan year on year.

The general government sector involving in the flow of funds chart refers to the broadly defined general government, comprising treasury (including administrative institutions and organizations) and social security fund. The fund surplus in the financial account of government in 2008 was 6.1 billion yuan, 660.1 billion yuan less than 2007, which witnessed the lowest surplus level since 2004. If not including revenues of social security fund, the deficit of government was 14.6 billion yuan. The main reason for this deficit would attribute to the lack of momentum of the fiscal revenues' growth and meanwhile the acceleration of fiscal expenditures. The fiscal revenues in 2008 increased by 18.9 percent, 13.5 percentage points lower than that of 2007, in which, 12.6 percentage points' shrinkage was brought by the slowdown in the growth of total revenues from national land remising because of the cool down in land market. On the other hand, the fiscal expenditures accelerated by investment in education, social security, disaster area reconstruction and domestic demand expansion, etc, increased by 25.4 percent year on year, achieving the highest level in recent years. For the reason of moderate issuance of government bonds, huge amount of surplus accumulated from previous years was used to keep government expenditures, leading to a sharp decrease of government deposits. The balance of government deposits in 2008 stood at 1.8 trillion yuan, slightly up by 2.3 percent year on year, the growth rate was 59.1 percentage points lower compared with that of 2007. The government deposits in 2008 increased by 26.9 billion yuan against the beginning of this year, 635.4 billion yuan less than the growth of the previous year.

Fund flow volume of financial institutions expanded significantly, and the insurance business remained stable growth



Loans and deposits, as well as total flow of funds kept noticeable increase for depository corporations^①. The incremental financial assets of money deposit institutions in 2008 reached 9.5 trillion yuan, up by 2.2 trillion yuan or 30.6 percent year on year, therein: bank loans increased by 5 trillion yuan, up by 1 trillion yuan year on year; central bank bonds increased by 1.1 trillion yuan, up by 813.1 billion yuan year on year; transactions among financial institutions increased by 358.6 billion yuan, while it was a decrease of 182.7 billion yuan in 2007.

The incremental financial liabilities of money deposit institutions in 2008 amounted to 7.5 trillion yuan, up by 1 trillion or 15.5 percent year on year, therein: deposits increased by 7.6 trillion yuan, up by 2.7 trillion yuan year on year (of which 3.5 trillion yuan was achieved by savings deposits); clients' margin deposits at securities firms decreased by 534 billion yuan, while it was an increase of 898.6 billion yuan in 2007.

Business of insurance corporations went smoothly, with the proportion of deposits in the uses of funds increased while that of stock investment decreased. The financial assets of insurance corporations in 2008 increased by 491.5 billion yuan, up by 95.3 billion yuan year on year, therein: bank deposits increased by 162.2 billion yuan, up by 104.5 billion yuan year on year, accounting for 33 percent of total incremental financial assets, 18.4 percentage points higher than that of 2007; stocks and shares in securities investment fund increased by 33.5 billion yuan, down by 173.2 billion yuan year on year, accounting for 6.8 percent of total incremental financial assets, 48.8 percentage points lower than that of 2007.

The financial liabilities of insurance corporations in 2008 increased by 500.3 billion yuan, up by 225.3 billion yuan year on year, in which insurance provisions increased by 448 billion yuan, up by 136.3 billion yuan year on year.

Bonds increased and stock decreased within the portfolio of securities investment funds. The financial

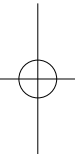
assets of securities investment funds increased by 351.3 billion yuan in 2008, down by 205.6 billion yuan year on year, therein: bond investment increased by 360.5 billion yuan, up by 209.7 billion yuan year on year, accounting for 102.6 percent of total incremental financial assets, 75.5 percentage points higher than that of 2007; stock investment increased by 45.8 billion yuan, down by 347 billion yuan year on year, accounting for 13 percent of total incremental financial assets, 57.5 percentage points lower than that of the previous year.

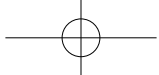
The financial liabilities of securities investment funds increased by 395.9 billion yuan in 2008, down by 135.7 billion yuan year on year, therein, shares of securities investment funds increased by 333.6 billion yuan, down by 210.1 billion yuan year on year; incremental transactions among financial institutions witnessed a 62.3 billion yuan increase compared with the previous year.

The increase of FDI slowed down, and incremental international reserve assets decreased by 349.9 billion yuan compared with that of 2007. The total inflow volume of foreign fund reached 1 trillion yuan, decreased by 739.2 billion yuan or 41.4 percent year on year, therein: FDI increased by 1.0271 trillion yuan, up by 49.3 billion yuan or 5 percent year on year, the growth rate was 52.1 percentage points lower than that of the previous year; other claims from abroad decreased by 124.2 billion yuan, whereas it was an increase of 223 billion yuan in 2007.

Net financing raised from China in 2008 reached 4.2 trillion yuan, decreased by 167.1 billion yuan or 3.8 percent year on year. During the year, other claims on borrowers abroad increased by 240.1 billion yuan, down by 575.3 billion year on year. International reserve assets increased by 2.9 trillion yuan, down by 349.9 billion yuan or 10.7 percent year on year. Direct overseas investment increased by 371.6 billion yuan, up by 251.5 billion yuan year on year, indicating that China's "going global" funds by direct investment abroad was increased.

^①Not including the central bank.

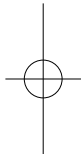
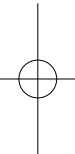


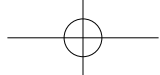


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■ **January**

5 Jan. The Work Conference of the PBC was convened in Beijing. In line with the requirements to thoroughly carry out the scientific development approach, the meeting comprehensively reviewed the PBC's major work accomplished in 2008, analyzed current economic and financial situations both at home and abroad and made arrangements for work priorities in 2009.

16 Jan. The 4th session of the Joint Meeting of the State Council on Anti Counterfeit Currency was convened. The meeting analyzed the current developments and features of the anti counterfeit currency work, and deliberated on the work for the present and the period ahead.

The Agricultural Bank of China (ABC) Shareholding Company Ltd. was inaugurated, thanks to the efforts of the ABC Reform Group led by the Office (PBC) of the Leading Group on Pilot Joint-stock Reform of Solely State-owned Commercial Banks, marking stepped progress of the reform.

19~20 Jan. The PBC Discipline Inspection Work Meeting was held in Beijing. In line with the spirits of the 3rd Plenary Session of the 17th Central Discipline Commission and the important speech of President Hu Jintao, the meeting reviewed the Party's work style and integrity building as well as the anti-corruption work of the PBC in 2009, and made arrangements for the work of 2010. At the meeting Mr. Zhou Xiaochuan, Governor and the Party Chief of the PBC stressed that leaders at various levels of the PBC shall strengthen the spirits of the Party, develop and promote good work styles, lead officials and staff to fully implement financial policy measures on promoting economic development, so as to ensure steady and fast development of the economy.

20 Jan. The PBC and the Monetary Authority of Hong Kong (HKMA) signed a currency swap agreement

of RMB 200 billion yuan/227 billion HK dollars with a term of three years.

■ **February**

5~6 Feb. Deputy Governor Liu Shiyu of the PBC attended the Annual Meeting of Emerging Economy Deputies of the BIS in Basel, Switzerland. The meeting discussed the shock of the global crisis to various economies and their responses, monetary policies and inflation measurement. Deputy Governor Liu spoke about the impact of the crisis on China as well as response measures of the Chinese government.

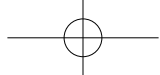
6 Feb. The PBC and the MOF jointly published the *Notice on Relevant Issues Regarding Issuance of 2009 Voucher Government Bonds (the 1st Issue)*. The Notice specified that the total volume of voucher government bonds for the issue stood at 30 billion yuan, among which 21 billion yuan were 3-year bonds with an annual rate of 3.73 percent and 9 billion yuan were 5-year bonds with an annual rate of 4 percent.

8 Feb. The PBC and Bank Negara Malaysia signed a currency swap arrangement of RMB 80 billion yuan/40 billion MYR with a term of 3 years.

■ **March**

5 Mar. The MOF and the PBC jointly issued the *Notice on Improving the Work on the Management of Special Lending (MOF Doc. No. [2009] 19)*. It established that beginning from the year of 2009, interest payment would be exempted for those who pay back the due principal for the year in full and on its own initiative in line with special lending agreements. After the special lending agreement expires, the deferred principal should be repaid by five annual equal installments.

11 Mar. The PBC and the National Bank of the



Republic of Belarus signed a bilateral currency swap arrangement of RMB 20 billion yuan/8 trillion BYR with a term of 3 years.

12 Mar. For the purpose of improving the efficiency of payment and settlement between the Mainland and Hong Kong and promoting their economic and financial ties, the PBC decided to establish multi-currency payment arrangements between the two economies by capitalizing on China's domestic foreign currency payment system and published the *Announcement of the Establishment of Multi-currency Payment Arrangements between the Mainland and Hong Kong by Capitalizing on China's Domestic Foreign Currency Payment System*. Since March 16, 2009, payment arrangements of four currencies including the US dollar, the euro, the HK dollar and the Pound Sterling have been established

18 Mar. The PBC and the CBRC jointly released *Guiding Opinions on Further Adjusting the Credit Structure to Promote Steady and Rapid Economic Growth*, requiring financial institutions to thoroughly implement ten opinions of the CPC Central Committee and the State Council on further boosting domestic demand and promoting economic growth and *Several Opinions of the General Office of the State Council on the Financial Sector Promoting Economic Growth*, and carry out appropriately accommodative monetary policy with a view to promoting steady and rapid economic growth.

23 Mar. The PBC and Bank Indonesia signed a bilateral currency swap arrangement of RMB 100 billion yuan/175 trillion IDR with a term of 3 years.

24 Mar. The PBC, as a leading agency, together with the NDRC, MOF, MOFCOM and other related agencies set up the Working Group on the Reform of the Export Import Bank of China and China Export & Credit Insurance Corporation to deliberate on reform issues of the two institutions.

29~30 Mar. Governor Zhou Xiaochuan of the PBC headed a delegation to attend the 50th Annual Meeting of the Inter-American Development Bank (IDB) Group.

Governor Zhou addressed the meeting in the capacity of the Governor for China on the Board of Governors of the IDB. This event marked China's first participation in the IDB annual meetings as a full member since its accession to the Group on January 12, 2009. During the annual meeting, Governor Zhou also delivered a keynote speech at a high-level seminar focusing on how the region can tackle the financial crisis.

30 Mar.~1 Apr. Deputy Governor Ma Delun of the PBC attended the 7th Plenary Meeting of the Islamic Financial Services Board in Riyadh, Saudi Arabia and paid a visit to the central bank of Saudi Arabia.

■ April

1 Apr. The PBC and MOF jointly published the *Notice on Relevant Issues Regarding the 1st Issuance of 2009 Savings Government Bonds (Electronic)*. The Notice specified that this issue of government bonds was a fixed-term of 3 years, with the annual interest rate standing at 3.73 percent and the upper limit of issuance being 35 billion yuan, and at the same time the *Notice on Relevant Issues Regarding the 2nd Issuance of 2009 Savings Government Bonds (Electronic)* was issued, specifying that this issue of government bonds was a fixed-term of 5 years, with the annual interest rate standing at 4 percent and the upper limit of issuance being 15 billion yuan.

2 Apr. The PBC and the Central Bank of Argentina signed a bilateral currency swap arrangement of RMB 70 billion yuan/38 billion ARS with a term of 3 years.

8 Apr. The 56th Standing Meeting of the State Council decided to launch pilot cross-border RMB settlement in Shanghai and four cities in Guangdong Province including Guangzhou, Shenzhen, Zhuhai, and Dongguan.

10 Apr. The Monetary Policy Committee of the PBC held its first quarterly meeting of 2009 in Beijing. Mr. Zhou Xiaochuan, Governor of the PBC and Chairman of the Monetary Policy Committee chaired the meeting. The meeting analyzed the economic and financial developments both at home and abroad, and reflected on



the direction and measures of monetary policy in the next stage.

25 Apr. Governor Zhou Xiaochuan attended the 19th Ministerial Meeting of the International Monetary and Financial Committee (IMFC) in Washington D.C. and delivered a speech. The main issues discussed at the meeting were global economic and financial developments, the IMF response to the crisis and the IMF reform. Governor Zhou also attended the G20 Financial Ministers and Central Bank Governors Meeting and the meeting of the High Level Commission on the Modernization of the World Bank Group Governance on the sidelines of the IMFC meeting.

26 Apr. Provincial governments of Shanghai, Jiangsu, Zhejiang and the PBC held the 2nd Joint Conference on Advancing the Coordinated Financial Development in the Yangtze Delta Region in Hangzhou, discussing how to further the coordinated financial development in the region.

■ May

5 May The PBC and the MOF jointly published the *Notice on Relevant Issues Regarding Issuance of Voucher Government Bonds (the 2nd Issue)*. The Notice specified that the total volume of voucher government bonds for the issue stood at 50 billion yuan, among which 40 billion yuan were 3-year bonds with an annual rate of 3.73 percent and 10 billion yuan were 5-year bonds with an annual rate of 4 percent.

5~6 May Deputy Governor Ma Delun of the PBC led a delegation to attend the 10th Session of the Banking Cooperation Sub-commission of China-Russia Regular Premier Meeting Commission in Khabarovsk, Russia.

11 May The State Council decided to appoint Mr. He Jianxiong Executive Director of China for the IMF and removed the role of Mr. Ge Huayong as Executive Director of China for the IMF.

13~14 May Governor Zhou Xiaochuan of the PBC headed a delegation to attend the 44th Annual Meeting of

the Board of Governors of the Africa Development Bank and the 35th Annual Meeting of the African Development Fund in DaKar, Senegal.

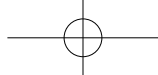
15~17 May Deputy Governor Hu Xiaolian of the PBC attended the 36th EMEAP Deputies Meeting, chaired the 5th Meeting of EMEAP Monetary and Financial Stability Committee, and had a bilateral meeting with Deputy Governor of the Central Bank of Indonesia in Manila, Philippines.

26 May The PBC, MOF, CBRC, CIRC and SFA jointly issued the *Guiding Opinions on Improving Financial Services to Support the Ownership System Reform of the Collectively-owned Forest and the Development of Forestry*. The financial sector was required to thoroughly study and practice the scientific development approach, and earnestly carry out the strategies of strengthening and supporting the agriculture, boosting domestic demand, securing growth, adjusting structure and favoring public livelihood. Financial services to the reform of collective forest rights system and the forestry development should be improved and enhanced in a comprehensive manner by stepping up effective credit provision to the forestry development and exploring and developing diverse financing channels to support the ownership system reform of the collective forest and forestry development.

27~28 May Deputy Governor Ma Delun of the PBC headed a delegation to attend the 39th Annual Meeting of the Caribbean Development Bank (CDB) in the British Turks and Caicos Islands, and met with President Bourne of the CDB.

■ June

5 Jun. The PBC and the MOF jointly published the *Notice on Relevant Issues Regarding Issuance of 2009 Voucher Government Bonds (the 3rd Issue)*. The Notice specified that the total volume of voucher government bonds for the issue stood at 50 billion yuan, among which 40 billion yuan were 3-year bonds with an annual rate of



3.73 percent and 10 billion yuan were 5-year bonds with an annual rate of 4 percent.

8 Jun. Governor Zhou Xiaochuan of the PBC met with Mr. Takatoshi Kato, Deputy Managing Director of the IMF, in Beijing. The two exchanged views on China's macroeconomic developments, monetary policy, structural reform and other issues.

15 Jun. The 73rd Meeting of the West African Development Bank (BOAD) Board of Directors was held in Shanghai. This was the first time that the BOAD Board of Directors met in an Asian country.

24 Jun. The Monetary Policy Committee of the PBC held its second quarterly meeting of 2009 in Beijing. The meeting was chaired by Mr. Zhou Xiaochuan, Governor of the PBC and Chairman of the Monetary Policy Committee. Delegates analyzed the economic and financial situation and deliberated on the stance and measures of monetary policy in the next stage.

26~27 Jun. Governor Zhou Xiaochuan of the PBC attended the Inaugural Meeting of the FSB in Basel, Switzerland. The meeting discussed issues including articles of association and internal structure of the FSB, new developments in the global financial system and the establishment of an early warning mechanism, international accounting standards currently revised by the FSB, development of macro-prudential approaches and instruments, expansion of the coverage of supervision and regulation, implementation of principles governing cross-border crisis management and principles for effective deposit insurance schemes. The meeting decided to set up a Steering Committee that would provide operational guidance for the FSB, and to establish three standing committees including the Standing Committee for Vulnerabilities Assessment, the Standing Committee for Supervisory and Regulatory Cooperation and the Standing Committee for Standards Implementation.

29 Jun. Governor Zhou Xiaochuan of the PBC and Chief Executive Joseph Yam of the HKMA signed a supplementary Memorandum of Cooperation. The PBC

and the HKMA agreed to regulate and supervise the settlement by Hong Kong banks of RMB-denominated cross-border trade transactions within their respective competencies, and to coordinate with one another to this end. The two parties also agreed to further develop RMB business in Hong Kong, so as to forge ahead with the mutually-assisting, complementary and interactive relationship between the financial systems of the Mainland and Hong Kong, and to strengthen Hong Kong's status as an international financial center.

July

1 Jul. Upon the approval of the State Council, the PBC, MOF, MOFCOM, GAC, SAF and CBRC jointly issued the *Administrative Rules on Pilot Program of Renminbi Settlement of Cross-border Trade Transactions*.

3 Jul. Governor Zhou Xiaochuan of the PBC attended the Global Think-tank Summit in Beijing and delivered a speech on the global financial crisis and possible adjustment scenarios of the global economy and policy response after the crisis.

The PBC issued the *Regulations for Implementing the Administrative Rules on Pilot Program of Renminbi Settlement of Cross-border Trade Transactions*.

6 Jul. The 1st RMB settlement of cross-border trade transactions was conducted in Shanghai. And the Information Management System of Renminbi Cross-border Receipt and Payment was put into operation.

7 Jul. The pilot work of RMB settlement of cross-border trade transactions was launched in four cities of Guangdong.

8~9 Jul. Deputy Governor Hu Xiaolian of the PBC attended the 130th Meeting of the Basel Committee on Banking Supervision in Basel, Switzerland, which was the first meeting China attended after joining the BCBS, and the first meeting of the committee after its member expansion, thus drawing a lot of attention from all members.



15 Jul. The State Council decided to appoint Mr. Yi Gang Chief of the State Administration of Foreign Exchange and removed the role of Ms. Hu Xiaolian as the Chief of the SAFE.

21~23 Jul. Governor Zhou Xiaochuan and Deputy Governor Hu Xiaolian of the PBC attended 14th EMEAP Central Banks Governors' meeting in Hong Kong, China.

23 Jul. The First Tripartite Governors Meeting among the PBC, the Bank of Japan (BOJ), and the Bank of Korea (BOK) was held in Shenzhen, China. Governor Zhou Xiaochuan of the PBC, Governor' Masaaki Shirakawa of the BOJ and Governor Seongtae Lee of the BOK attended the meeting. The Tripartite Governors' Meeting in Shenzhen was the first formal meeting since the meeting was regularized. The Governors reviewed recent economic and financial developments in these three countries, and exchanged views on macro-prudence, financial stability, regional monetary cooperation and other issues of common concerns.

24 Jul. The meeting of the presidents of the PBC branch offices was convened in Changchun. The conference reviewed the progress in implementing the plan outlined at the beginning of 2009, analyzed current economic and financial situation and arranged key tasks for the second half of this year.

■ August

6~8 Aug. The PBC and the BIS co-hosted in Shanghai the Wrap-up Conference of the BIS Asian Research Program. The conference was focused on the subject "The International Financial Crisis and Policy Challenges in Asia and the Pacific". The conference discussed in particular the impact of the international financial crisis on the Asia-Pacific region and policy challenges faced by central banks in the region. Three topics were separately explored, i.e. monetary policy and exchange rates, market development and financial stability. PBC Governor Zhou Xiaochuan attended the conference and spoke about the measures China had

taken to maintain financial stability.

10 Aug. The PBC and the MOF jointly published the *Notice on Relevant Issues Regarding Issuance of Voucher Government Bonds (the 4th Issue)*. The Notice specified that the total volume of voucher government bonds for the issue stood at 40 billion yuan, among which 20 billion yuan were 1-year bonds with an annual rate of 2.60 percent and 20 billion yuan were 3-year bonds with an annual rate of 3.73 percent.

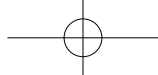
17 Aug. The Financial Sector Assessment Program (FSAP) was launched in China. The PBC invited the MFA, NDRC, MOF, MHRSS, MOFCOM, NBS, Legal Office of the State Council, CBRC, CSRC, CIRC and SAFE to a coordination meeting chaired by Governor Zhou Xiaochuan of the PBC. The Meeting decided to set up the FSAP Inter-agency Leading Group and Working Group.

■ September

1 Sep. To carry out the requirement of the Publicity Department of the CPC Central Committee on Singing up the main theme of the time "Hymn for CPC, Socialism, Reform and Opening up, Great Motherland and Various Peoples" for the 60th anniversary of the New China, the PBC held a ceremonious meeting of awards of excellent CPC organizations, excellent staff members working in the area of CPC affairs and excellent CPC members and a staff performance event featuring "I love you, China".

3~4 Sep. Deputy Governor Ma Delun of the PBC headed a delegation to attend the 5th Meeting of China-Kazakhstan Financial Cooperation Sub-commission in Aktau, Kazakhstan, and after the meeting visited Bulgarian National Bank on invitation.

4~5 Sep. Governor Zhou Xiaochuan of the PBC attended the G20 Finance Minister and Central Bank Governors' Meeting in London, UK. At the meeting Governor Zhou pointed out all countries should keep close cooperation to promote economic recovery and stable performance of financial systems.



7 Sep. The PBC, MOFCOM, CBRC, CSRC, CIRC and SAFE jointly issued *Several Opinions on Financial Sector Supporting Development of Service Outsourcing Industry*, asking the financial sector to thoroughly implement *Several Opinions on Financial Sector Promoting Economic Growth* and the Letter of Reply on Promoting Service Outsourcing Industry of the General Office of the State Council, boost support of the financial sector to industry transfer and upgrade, and focus on financial services to the development of service outsourcing industry in 20 model cities, thus to improve the financial support to the development of service outsourcing industry in an all-around manner.

8 Sep. The PBC released the *Notice of the PBC on Launching a Survey of Deposit Account Structure of Deposit-taking Financial Institutions*, launching a sample survey on amount and structure of deposit accounts of deposit-taking financial institutions, to get updated information on distribution of deposit accounts across the country and to provide a basis for the design of deposit insurance scheme in China.

14~19 Sep. The first FSAP mission of the IMF/WB visited China and met with Chinese officials. The two sides fully exchanged views on the FASP scope and work plan in China and achievement general agreement.

28 Sep. The Monetary Policy Committee of the PBC held its third quarterly meeting in 2009 in Beijing. Mr. Zhou Xiaochuan, Governor of the PBC and Chairman of the Monetary Policy Committee, chaired the meeting. After analyzing domestic and global economic and financial developments, the Committee held that in the next quarter the PBC will follow the decisions of the CPC Central Committee and the State Council on macroeconomic management, continue the appropriately accommodative monetary policy, and maintain policy continuity and stability.

30 Sep. The PBC and the MOF jointly published the *Notice on Relevant Issues Regarding Issuance of Voucher Government Bonds (the 5th Issue)*. The Notice specified

that the total volume of voucher government bonds for the issue stood at 30 billion yuan, among which 15 billion yuan were 1-year bonds with an annual rate of 2.60 percent and 15 billion yuan were 3-year bonds with an annual rate of 3.73 percent.

■ October

3~4 Oct. Deputy Governor Yi Gang attended the 20th Ministerial Meeting of the IMFC in Istanbul and delivered a speech. The meeting discussed the Fund surveillance, global economic outlook and the IMF's governance.

12 Oct. The State Council decided to appoint Mr. Zhu Min Deputy Governor of the PBC.

13 Oct. The 4th China-Russia High-Level Economic and Business Forum and the 4th China-Russia Financial Cooperation Forum was convened in Beijing.

21 Oct. Chief Disciplinary Officer Wang Hongzhang of the PBC headed a delegation to attend the Interim Consultation Meeting for the 11th Capital Increase of the African Development Fund and the Launch Meeting for the 12th Capital Increase in the capacity of the Alternate Governor for China on the Board of Governors of the ADB, and visited the Central Bank of Norway after the meeting, exchanging views with its Deputy Governor, Mr. Jan Qwigstad on macroeconomic developments and crisis response.

29~30 Oct. Deputy Governor Zhu Min of the PBC attended the 1st Formal Meeting of the Standards Implementation Committee of the Financial Stability Board in Toronto, Canada.

■ November

3 Nov. The PBC and the General Logistics Department of the Chinese People's Liberation Army jointly issued *Guiding Opinions on the Use of Serviceman Security Card in the Banking Business*, suggesting the PBC strengthened financial sector policies supporting national defense and army construction, and developed a



new financial service model to support the army to build modern logistics in an all-round way.

4 Nov. The PBC established the Monetary Policy Department II.

14-15 Nov. Deputy Governor Yi Gang of the PBC attended the 37th EMEAP Deputies Meeting and the 6th Meeting of EMEAP Monetary and Financial Stability Committee in Chiang Mai, Thailand. He also participated in the First Meeting of the IMF Asian Advisory Group in Singapore on Nov. 13.

28 Nov. The Shanghai Clearing House was established in Shanghai. Governor Zhou Xiaochuan of the PBC and Mr. Han Zheng, Mayor and Deputy Chairman of the CPC Committee of Shanghai attended the inauguration ceremony and unveiling the company together. Shanghai Clearing House is positioned as a specialized and independent clearing agency to provide direct and indirect clearing services of domestic and foreign currencies for financial markets.

29 Nov. Governor Zhou Xiaochuan of the PBC met with Mr. Jean-Claude Juncker, Prime Minister of the Grand-Duchy of Luxemburg and President of the Eurogroup, Mr. Jean-Claude Trichet, President of the European Central Bank, and Mr. Joaquin Almunia, European Commissioner for Economic and Monetary Affairs. They exchanged views on topics including economic situation, monetary policy and financial stability in China and the Euro area and expressed the intention to further strengthen communication and cooperation.

■ December

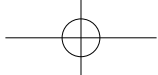
7~9 Dec. The 11th Plenary Meeting and Working Group Meeting of the EAG was held in Guilin, Guangxi Autonomous Region. Deputy Governor Zhu Min, Vice President of Guangxi Zhuang Autonomous Region Liang Shengli, and Mr. Markov, Chairman of the EAG and Assistant to Russia's President attended and spoke at the meeting.

8~9 Dec. Deputy Governor Hu Xiaolian of the PBC attended the 132nd BCBS Meeting in Basel, Switzerland. The meeting reviewed and approved *Strengthening the Resilience of the Banking Sector – Consultative Document and the International Framework for Liquidity Risk Measurement, Standards and Monitoring of Liquidity Risks – Consultative Document*.

9 Dec. Deputy Governor Ma Delun of the PBC attended the Shanghai Cooperation Organization Finance Minister and Central Bank Governors Meeting in Almaty, Kazakhstan. Delegates shared with each other economic and social developments and measures on coping with international crisis, and discussed how to tackle the crisis together. The meeting approved the *Joint Statement*.

14 Dec. Deputy Governor Zhu Min of the PBC and Chairman Ding Lianxing of the Monetary Authority of Macao signed Supplementary Memorandum on Oversight Cooperation in Macao. Both parties agreed to oversee personal RMB business and RMB settlement of cross-border trade transactions handled by banks in Macao within their respective competencies and to cooperate with each other. They have agreed to cooperate more closely in promoting RMB business in Macao in order to deepen economic and financial integration between the mainland and Macao and facilitate long-term development of the banking industry in Macao.

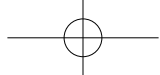
22 Dec. The Monetary Policy Committee of the PBC held its fourth quarterly meeting in 2009 in Beijing. Mr. Zhou Xiaochuan, Governor of the PBC and Chairman of the Monetary Policy Committee, chaired the meeting. The Committee reviewed monetary policy conduct in 2009, and discussed the latest economic and financial developments both at home and abroad. It was noted that, in 2010, efforts will be made to carry out the principles set at the Central Economic Work Conference and to strike a proper balance among supporting sound and rapid economic growth, adjusting economic structure and managing inflation expectations. It is important to continue to carry out the appropriately accommodative



monetary policy, and ensure policy consistency and stability. It is necessary to make policies better targeted and more flexible, and to properly manage the intensity, pace and focus of policy implementation in line with the evolving situation.

The PBC, CBRC, CSRC, and CIRC jointly issued *Guiding Opinions on Further Improving Financial Services to Support the Restructuring and Revitalization of Key Industries and for Curbing Overcapacity in Some Sectors*. It required the financial sector to thoroughly study and practice the scientific development approach, and carry out the decisions and arrangements of the

Central Economic Work Conference. Efforts should be made to continue to implement an appropriately accommodative monetary policy and ensure reasonable financing needs for adjustment of key industries be satisfied. It is important to focus on expanding domestic demand, optimize credit structure, and promote transformation of economic development pattern and structural adjustment. And it is imperative to get rid of obsolete capacity and curb overcapacity in some sector to improve quality and efficiency of economic development and keep stable and sustainable development of the national economy.

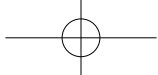


SELECTED RULES AND REGULATORY DOCUMENTS PROMULGATED IN 2009

No.	Document No.	Title	Organization of Issuance	Time of Issuance
1	Decree [2009] No.1	Administrative Measures for the Registration, Custody and Clearing of Bonds in the Interbank Bond Market	PBC	2009.03.26
2	Decree [2009] No.2	Administrative Rules on the Business of Electronic Commercial Draft	PBC	2009.10.16
3	Announcement [2009] No.1	Issues Concerning the Adjustment of the Review and Approval Policy Regarding Bond Trading and Circulation	PBC	2009.01.07
4	Announcement [2009] No.3	Multi-currency Payment Arrangements between the Mainland and Hong Kong by Capitalizing on China's Domestic Foreign Currency Payment System	PBC	2009.03.12
5	Announcement [2009] No.4	Ratifying the Promulgation of the <i>Master Agreement on the Trading of Financial Derivatives on the Interbank Market</i> by the National Association of Financial Market Institutional Investors	PBC	2009.03.11
6	Announcement [2009] No.5	Issues Concerning the Opening of Bond Accounts by Fund Management Companies on the National Interbank Bond Market for the Purpose of Providing Asset Management Services for Specific Clients	PBC	2009.03.18
7	Announcement [2009] No.6	Administrative Procedures for the Issuance of Financial Bonds in the National Interbank Bond Market	PBC	2009.03.25
8	Announcement [2009] No.7	Registration of Non-financial Institutions Engaged in Providing Payment and Clearing Services	PBC	2009.04.16
9	Announcement [2009] No.10	Administrative Rules on Pilot Program of Renminbi Settlement of Cross-border Trade Transactions	PBC, MOF, MOFCOM GAC, SAT, CBRC	2009.07.01
10	Announcement [2009] No.11	Issues Concerning the Opening of Bond Accounts by Securities Companies on the National Interbank Bond Market for the Purpose of Providing Asset Management Services for Specific Clients	PBC	2009.07.16
11	Announcement [2009] No.14	Issues Concerning the Issuance of Financial Bonds by Financial Leasing Companies and Auto Financing Companies	PBC, CBRC	2009.08.18
12	Announcement [2009] No.20	Expanding the Scope of Providing Position-squaring and Settlement Services to Macao Banks for Their RMB Business	PBC	2009.12.14



No.	Document No.	Title	Organization of Issuance	Time of Issuance
13	Document [2009] No.29	The Notice on Issuing Professional Standards on <i>Data Elements for Credit Information Service ~ Data Elements of Credit Rating</i> and <i>Credit Data Exchange Format ~ Data Collection Format for Default Rate of Credit Rating</i>	PBC	2009.01.24
14	Document [2009] No.35	The Notice on Establishing the <i>Special Reporting System of Loans to Domestic Large, Medium and Small Enterprises</i>	PBC, CBRC	2009.01.23
15	Document [2009] No.38	The Notice on Improving the Management of Agricultural Central Bank Lending, Supporting Spring Land Preparation and Increasing Credit Granting to Rural Development, Agriculture and Farmers	PBC	2009.02.06
16	Document [2009] No.89	The Notice on Issuing <i>Professional Standard on Structure and Design Rules of Message Type in Data Exchange between Bank and Securities & Future Industry</i>	PBC, CSRC	2009.03.11
17	Document [2009] No.92	Guiding Opinions on Further Adjusting the Credit Structure to Promote Steady and Rapid Economic Growth	PBC, CBRC	2009.03.18
18	Document [2009] No.107	The Notice on Issuing <i>Guidance Paper to Bankcard Organizations and Funds Clearing Centers on Anti-money Laundering and Combating the Financing of Terrorism</i>	PBC	2009.04.01
19	Document [2009] No.142	The Notice on Strengthening the Safety Management of Bankcards, Preventing and Combating Bankcard-related Crimes	PBC, CBRC, Ministry of Public Security, State Administration for Industry and Commerce	2009.04.27
20	Document [2009] No.161	The Notice on Issuing <i>Professional Standard on Bankcard Specification</i>	PBC	2009.05.18
21	Document [2009] No.167	The Notice on Issuing <i>Administrative Rules on ABS Electronic Accounting Reconciliation System</i>	PBC	2009.05.22
22	Document [2009] No.170	Guiding Opinions on Improving Financial Services to Support the Ownership System Reform of the Collectively-owned Forest and the Development of Forestry	PBC, MOF, CBRC, SFA	2009.05.25
23	Document [2009] No.177	The Notice on Issuing <i>Professional Standard on Technical Specifications on Bankcard Interoperability</i>	PBC	2009.06.01
24	Document [2009] No.212	The Notice on Issuing the <i>Regulations for Implementing the Administrative Rules on Pilot Program of Renminbi Settlement of Cross-border Trade Transactions</i>	PBC	2009.07.03
25	Document [2009] No.224	The Notice on Improving the Payment Service Environment in Rural Areas	PBC	2009.07.16
26	Document [2009] No.268	The Notice on Establishing the Financial Reporting System of Loan Companies and Small Loan Companies	PBC	2009.08.27



No.	Document No.	Title	Organization of Issuance	Time of Issuance
27	Document [2009] No.277	The Notice on Issuing <i>Professional Standards on Technical Specification on Check Image Exchange ~ Image Collection</i>	PBC	2009.09.02
28	Document [2009] No.284	Several Opinions on Financial Sector Supporting Development of Service Outsourcing Industry	PBC, MOFCOM, CBRC, CSRC, CIRC, SAFE	2009.09.07
29	Document [2009] No.298	The Notice on Issuing <i>Guidance Paper to Payment and Settlement Organizations on Anti-money Laundering and Combating the Financing of Terrorism</i>	PBC	2009.09.16
30	Document [2009] No.328	The Notice on Issuing the Relevant Rules on Electronic Commercial Draft	PBC	2009.10.26
31	Document [2009] No.363	The Notice on Issuing <i>Coding Specifications for Financial Institutions</i>	PBC	2009.11.30
32	Document [2009] No.386	Guiding Opinions on Further Improving Financial Services to Support the Restructuring and Revitalization of Key Industries and for Curbing Overcapacity in Some Sectors	PBC, CBRC, CSRC, CIRC	2009.12.22
33	General Administration Department Document [2009] No.136	The Notice on Issuing <i>Administrative Rules on Innovation of Direct Receipt and Payment System of the State Treasury (for Trial Implementation)</i>	PBC General Administration Department	2009.06.24