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OVERVIEW

We are a leading commercial bank in China in terms of total assets, total loans and total deposits. At December 31, 2009, we had RMB8,882.6 billion in total assets, RMB4,138.2 billion in total gross loans and RMB7,497.6 billion in total customer deposits, representing a market share of 11.3%, 9.7% and 12.3%, respectively, of all banking institutions in China. We were ranked No. 8 in *The Banker's* "Top 1000 World Banks" list in terms of profit before tax for the year of 2008.

We have the largest domestic distribution network among the Large Commercial Banks in terms of the number of branch outlets. As of December 31, 2009, we had a total number of 23,624 domestic branch outlets. Leveraging our extensive network, we provide a wide range of banking products and services to our corporate and retail customers in China. We are a market leader in a number of areas in the PRC banking sector:

- We believe that we are the largest retail bank in China in terms of the number of retail customers, with approximately 320 million retail customers as of December 31, 2009;
- We have a nationwide distribution network with the broadest geographic coverage in China and the largest number of ATMs among the Large Commercial Banks;
- We were consistently ranked first among all commercial banks in China in terms of the total number of bank cards issued and bank card deposit amounts as of the end of each year from 2006 to 2009 and total transaction volume on debit cards in each year from 2006 to 2009;
- We were ranked first and second, respectively, among all commercial banks in China in terms of new premiums for insurance products sold through our distribution network and fees generated from our bancassurance business in 2009;
- We were the second largest custodian bank and the largest custodian bank for insurance funds in China in terms of assets under custody as of December 31, 2009; and
- We accomplished data centralization in 2006, and we were ranked No. 5 among the "2008 PRC Top 500 Enterprises in Information Technology" ("2008年度中國企業信息化500強") by the *National Informatization Evaluation Center*.

As a leading bank in China's Urban Areas, we have benefited from China's strong economic growth. We have leveraged our extensive distribution network and large customer base to further strengthen our market position in the Urban Areas. At December 31, 2009, our loans and deposits in the Urban Areas totaled RMB2,944.8 billion and RMB4,463.0 billion, representing an increase of 29.8% and 24.6%, respectively, from December 31, 2008.

We are a primary provider of financial services and a market leader in China's vast, fast-developing County Areas, with the largest number of domestic branch outlets among the Large Commercial Banks. We provide customers in the County Areas with a broad range of financial products and services through our 2,048 county-level sub-branches and 22 business departments of tier-2 branches. We refer to such banking business as the "County Area Banking Business" or "Sannong Banking Business." We believe that the established market leadership and vast distribution network of our County Area Banking Business enable us to continue to take advantage of the various growth opportunities arising from the rapid urbanization and favorable economic and policy developments in the County Areas. At December 31, 2009, our loans and deposits in the County Areas

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totaled RMB1,193.4 billion and RMB3,034.6 billion, representing an increase of 43.4% and 20.7%, respectively, from December 31, 2008.

We believe that “Agricultural Bank of China” (“中國農業銀行”) is one of the most recognized financial services brands in China. We have received many international and domestic honors and awards for our business performance, including the “Annual Achievement Award on Cash Management (Greater China)” in 2009 from *The Asian Banker*, the “Top 10 Corporate Finance Products” in 2009 by *The Chinese Banker* (“銀行家”), the “Business Progress Award” in 2008 from *Visa International* and the “Best Product Design Award” in 2008 from *MasterCard International*.

Headquartered in Beijing with a nationwide distribution network, we also have branches in Hong Kong and Singapore and representative offices in New York, London, Tokyo, Frankfurt, Seoul and Sydney. In addition, we have a number of wholly-owned subsidiaries incorporated in Hong Kong, including ABC International Holdings Limited and China Agricultural Finance Co., Ltd.

Our Competitive Strengths

Our principal competitive strengths include:

Well-positioned to Capitalize on China’s Future Growth in Both Urban Areas and County Areas

With a significant market share and a broad presence in both Urban Areas and County Areas, we are well-positioned to capitalize on China’s future growth by providing comprehensive products and services to our customers through an integrated platform that covers both Urban Areas and County Areas.

Rapid urbanization, increasing business flows between the Urban Areas and the County Areas and the continued shift to a more consumption-driven economy have stimulated a strong growth in both Urban Areas and County Areas. In addition, as a key part of its future development strategy, the PRC government plans to continue to focus on promoting the economic development of the County Areas. In the past three years, the amount of subsidy related to the County Areas in the PRC central government’s national budget has grown by a CAGR of 29.6%. We believe that this trend is likely to continue in the foreseeable future. As a result of a number of initiatives by the PRC government to stimulate domestic demand, narrow the urban and rural development gap, accelerate the urbanization process and promote development across all regions, the share of China’s GDP attributable to the County Areas increased from 45.9% in 2001 to 49.6% in 2008. We believe that the continued trend of urbanization will further increase the County Areas’ contribution to China’s GDP. The economic development in the County Areas has spurred rapid growth of the banking industry in these areas. As a result of our established leadership in both Urban Areas and County Areas, we believe that we are well-positioned to capitalize on China’s future growth in both Urban Areas and County Areas.

We endeavor to maintain balanced development in both Urban Areas and County Areas. We believe our broad coverage and large customer base in both Urban Areas and County Areas will continue to provide us with significant competitive advantages compared to other commercial banks in China.

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Extensive Nationwide Branch Outlet Network Complemented by a Multi-channel Electronic Banking System

We have a nationwide distribution network with the largest number of branch outlets among the Large Commercial Banks. As of December 31, 2009, we had a total number of 23,624 domestic branch outlets, covering all of the cities and 99.5% of the counties in China. We maintain a strong presence in economically developed areas. As of December 31, 2009, we had 3,116, 2,590 and 3,355 branch outlets in the Yangtze River Delta, Pearl River Delta and Bohai Rim regions, respectively, more than any other Large Commercial Banks in each of these regions.

As an important complement to and extension of our nationwide distribution network, we have a multi-channel electronic banking transaction system consisting primarily of ATMs, Internet banking, phone banking, mobile phone banking and non-cash transaction terminals. We also have a leading electronic customer service system with Internet portals and a call center which operates 24 hours a day, seven days a week. As of December 31, 2009, we had 41,011 ATMs, the largest number of ATMs among the Large Commercial Banks. For the year ended December 31, 2009, 49.8% of all of our transactions were conducted through our electronic banking system.

Our extensive nationwide branch outlet network complemented by our multi-channel electronic banking system provides us with a strong sales platform, which enables us to cross-sell our products and to deliver high-quality, convenient and comprehensive services. It has also allowed us to establish a leading position in major product and service offerings including deposits, lending, settlement, custody, agency services and bank cards.

Large and Diversified Customer Base Providing Significant Growth Potential

Through our extensive multi-channel distribution network, we serve a large and diversified corporate and retail customer base.

As of December 31, 2009, we had approximately 2.60 million corporate customers, of which approximately 68,000 customers had outstanding loans from us. As of the same date, we also had approximately 3.15 million corporate RMB settlement accounts, approximately 51,000 cash management customers and approximately 25,000 contractual customers of our financial advisory services. In addition to expanding our customer base, we have focused on optimizing our customer mix by developing relationships with large industry-leading companies, financial institutions and government agencies. As of December 31, 2009, we had established close business relationships with 62 out of the 129 large-scale state-owned enterprises supervised by the SASAC. In addition, as of the same date, we had developed business cooperation relationships with 59 insurance companies, 93 securities firms and 161 futures companies in China.

We believe that we have the largest retail banking customer base in China with approximately 320 million retail customers as of December 31, 2009. In particular, we have an extensive customer base for our retail lending business, with approximately 8.24 million customers with outstanding loans from us at December 31, 2009. In addition, as of the same date, we had approximately 3.01 million retail customers each maintaining a deposit balance of over RMB200,000, and the aggregate retail deposit amount of these customers represents 38.2% of our total retail deposits. Our large and affluent retail customer base enables us to identify and introduce attractive new products and services. We believe the demand for emerging financial services, such as wealth management, bancassurance and investment, will increase significantly as our customers' personal wealth continues to grow.

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We believe our large and diversified customer base enhances our competitive position across various business segments by providing us with significant business growth opportunities.

Strong Deposit Base Providing Stable and Low-cost Funding

We believe that our large distribution network has enabled us to provide convenient services to our broad customer base across China and to establish a strong brand recognition among our customers. We have one of the largest customer deposit bases among all commercial banks in China, amounting to RMB7,497.6 billion at December 31, 2009, representing a market share of 12.3% among all PRC banking institutions.

We had RMB4,365.4 billion in retail deposits at December 31, 2009, representing a market share of 16.5% among all PRC banking institutions, the second largest among all commercial banks in China. At the same date, our retail deposits accounted for 58.2% of our total deposits, the highest percentage among the Large Commercial Banks. Our large retail deposit base provides us with a stable source of funding. In addition, we have a greater percentage of demand deposits within our deposit mix. Demand deposits accounted for 55.5% of our total deposits at December 31, 2009, the highest percentage among the Large Commercial Banks. Having deposits primarily consisting of demand deposits enables us to maintain a lower cost of deposits compared to other commercial banks in China. For the years ended December 31, 2009 and 2008, our average domestic deposit cost was 1.49% and 1.98%, respectively, which were the lowest among the Large Commercial Banks.

We believe that our large deposit base provides us with access to stable source of funding at a relatively low cost, which enables us to grow our loan business and improve our financial results.

Fast Growing Fee- and Commission-based Business

It has been an important strategic focus for us to grow fee- and commission-based business. Our integrated branch and electronic banking network and increasingly diversified product and service portfolio have enabled us to successfully develop our fee- and commission-based business. In 2009, our net fee and commission income was RMB35.6 billion, representing a 49.8% increase from 2008. The ratio of our fee and commission income to our operating income grew from 12.5% in 2007 to 15.9% in 2009. Through product innovation, resources sharing among our different business segments and cross-selling efforts, we have been able to maintain our strengths in settlement, asset custody, bank cards and bancassurance businesses.

In 2009, the transaction volume of our Renminbi settlement business was RMB234.4 trillion. As of December 31, 2009, our assets under custody reached RMB1,391.3 billion, the second largest among all commercial banks in China, among which, the value of our insurance assets under custody was the largest among all commercial banks in China. In addition, we were consistently ranked first in terms of total number of bank cards issued as of the end of each year from 2006 to 2009. We had issued approximately 365 million bank cards as of December 31, 2009 and our “Kins Card” (“金穗卡”) brand is widely recognized in the PRC. In 2009, we collected RMB72.8 billion new premiums from our sales of insurance products, the largest among all commercial banks in China, and earned RMB2.8 billion of fees and commissions, the second largest among all commercial banks in China.

Furthermore, given our large and diversified customer base, we have experienced a rapid growth in certain new business areas. From 2007 to 2009, fees and commissions from our financial advisory service and electronic banking service increased at CAGRs of 307.2% and 84.2%,

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respectively. In addition, we have also taken initiatives in new business areas that we believe present strong growth potential, such as asset management, wealth management and investment banking. We were one of the first banks to offer CBRC-approved RMB-denominated wealth management products among approximately 100 banking institutions in China that currently offer such wealth management products. In addition, we were one of the first banks licensed to provide custody services to mutual funds among 17 commercial banks in China licensed to provide such custody services as of April 30, 2010.

Continuously Enhanced Risk Management and Internal Control Capabilities

In recent years, we have strengthened our risk management and internal control capabilities by improving our policies and procedures and introducing advanced risk management tools.

We have adopted a prudent risk management strategy and continued to enhance our risk management organizational structure, in order to create a centralized risk management system and an independent and effective risk management function. We have also continued to enhance our credit risk management system. In this context, we have adopted industry-specific credit guidelines and a customer list-based management system, and implemented a standardized authorization and credit approval process, where credit applications are reviewed by dedicated professionals. We have further refined our risk management tools and systems by adopting credit limits with respect to our exposure to borrowers, developing a risk reporting system and implementing a 12-category loan classification system and adopting a customer credit rating system for corporate loans. We have developed a plan to implement Basel II and upgrade our internal rating-based system for our customers. We have also expanded the use of economic capital management tools from credit risk management to market risk and operational risk management.

We have also started to implement a program to appoint risk officers from tier-1 branches to tier-2 branches, and appoint risk managers from tier-2 branches to sub-branches.

We believe that our efforts in strengthening risk management have improved our asset quality. The downgrade migration ratios of our domestic loan portfolio classified as normal and special mention loans decreased to 1.65% in 2009 compared to 3.35% in 2008.

We have established and improved our internal control and compliance management system and internal audit system. These systems have enabled us to enhance our internal control and compliance management capabilities, strengthen our designated internal audit function and reduce operational risks and incidences of fraud and other non-compliance.

Leading Information Technology Platform

We believe that we have one of the most advanced information technology platforms among all commercial banks in China. We accomplished data centralization in 2006 and have gradually established a centralized computer network system which, through our national data center, covers more than 20,000 branch outlets and links 170,000 teller terminals throughout China. We were ranked No. 5 among the “2008 PRC Top 500 Enterprises in Information Technology” (“2008年度中國企業信息化500強”) by the *National Informatization Evaluation Center*. Furthermore, we are in the process of upgrading our information technology platform to establish a more advanced core banking system to meet the needs of our business development and operational management.

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By establishing an information technology system which effectively integrates our customer service channels, including physical counters, Internet banking, customer service system, phone banking, mobile phone banking and information platforms, we are able to provide our management team with certain financial and operational data on a T+1 basis and better serve our customers in an efficient and effective manner. We have also focused on calibrating our information systems to meet the requirements of our County Area Banking Business and strengthen our information technology capabilities in support of our continued expansion in the County Areas.

Experienced Management Team with a Proven Track Record

We have an energetic, experienced and entrepreneurial management team with an established proven track record in the financial services industry. Our chairman, Mr. XIANG Junbo, has extensive experience in audit supervision and financial macroeconomic management and control. He was the deputy Auditor General of the NAO and the deputy governor of the PBOC before joining us. Our president, Mr. ZHANG Yun, has served us for over 20 years and was previously our executive assistant president and executive vice president. The chairman of our Board of Supervisors, Mr. CHE Yingxin, has extensive experience in supervising financial institutions and was the assistant to chairman of the CBRC and the chairman of the Board of Supervisors of Key State-owned Financial Institutions (國有重點金融機構監事會). Our senior management team, namely, our chairman, president, executive vice presidents and secretary to the Board of Directors, have on average over 20 years of professional experience in the financial industry. All members of our management team have in-depth knowledge of banking operations and management and, through their working experience with us and in other Chinese financial institutions, have gained a deep understanding of China's macroeconomic environment, its banking industry and the financial system in China's County Areas in particular.

Our experienced management team has demonstrated a track record of successfully implementing a series of transformational initiatives, including our financial restructuring and the improvement of our corporate governance and risk management. Under the leadership of our management team, we have significantly improved our operations and financial results, and are moving toward our goal of becoming a world-class commercial bank.

OUR STRATEGIES

By leveraging our leading positions in both Urban Areas and County Areas, we believe we will become a world-class financial institution through the successful implementation of the following strategies.

Further Strengthen Our Leadership in the Urban Areas

We plan to further strengthen our leadership in the Urban Areas by focusing on key customers and selected geographical regions and promoting innovative, high value-added products and services. Specifically:

- We plan to further develop our business in the more economically developed regions, such as the Yangtze River Delta, Pearl River Delta and Bohai Rim, focusing on key cities and other areas with abundant financial resources, such as provincial capitals and regional centers.
- We will continue to focus on large and high-quality customers in our corporate banking business, including industry leading companies, large state-owned enterprises and Chinese

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subsidiaries of global Fortune 500 companies, while maintaining our leadership in the SME segment. In addition, we plan to tailor our sales and marketing efforts to industry sectors with significant growth potential.

- We will further upgrade our outlets and strengthen our customer segmentation capabilities to enhance cross-selling in our retail banking business. We aim to achieve higher returns through continued focus on high-growth business areas, such as wealth management and private banking.

Solidify Our Dominant Position in the County Areas

We believe that China's vast, fast-growing County Areas present significant growth potential and will be a key driver for China's long-term economic growth. We have a business unit dedicated to the County Area banking market. We intend to leverage our dominant market position and our first-mover advantage, to strengthen our presence and customer penetration in the County Areas, which we believe will deliver more significant profit contribution to us. Specifically:

- We intend to capture opportunities arising out of the urbanization and industrialization process to provide customers in the County Areas, particularly industry-leading companies in the County Areas as well as their suppliers, customers and distributors, with comprehensive financial products and services.
- We aim to meet the needs of mid- to high-end retail customers in the County Areas, and to leverage our Huinong Card (惠农卡) to develop businesses related to new rural pension insurance and new rural cooperative medical insurance schemes.
- We plan to leverage our extensive electronic distribution channels to expand our coverage in the County Areas, provide our customers in the County Areas with more convenient and user-friendly services and increase our operational efficiency in the County Areas.
- We will continue to allocate additional resources to selected sub-branches in the County Areas to drive the growth of our business in the County Areas.

Diversify Our Revenue Mix by Expanding Our Product and Service Offerings

We intend to further diversify our revenue sources and increase our overall revenue by expanding our product and service offerings, particularly fee- and commission-based business, through the following efforts:

- We aim to leverage our extensive distribution network to strengthen our leading position in bank cards, settlement, insurance agency and custody services.
- We also intend to further expand emerging business areas, such as asset management, investment banking, financial leasing and rural insurance.

In addition to expanding our product and services portfolio, we also intend to adopt a more sophisticated pricing mechanism by taking into account several factors, including market competition and customer risk profiles.

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Continuously Upgrade Our Multi-channel Distribution Network

We aim to upgrade our multi-channel distribution network. We believe our upgraded outlets and improved electronic banking will enable us to further enhance our operational efficiency and profitability.

- We plan to continue to upgrade our outlets, allocate separate space to different service functions and streamline the business operations to increase our operational efficiency and marketing capability.
- We intend to continue our efforts to upgrade certain of our branch outlets, including establishing more high-end wealth management centers to develop our wealth management business, and provide a wider range of products and services to our customers.
- In electronic banking, we intend to leverage our leading information technology platform to expand our service offerings and improve our service quality, while at the same time increasing efficiency.

Continuously Strengthen Our Risk Management and Internal Control Capabilities

We plan to continue to enhance our risk management and internal control capabilities by:

- continuing to focus on implementing a comprehensive risk management strategy characterized by a sound governance structure, independent credit risk management and strong risk management culture shared by all our employees;
- proactively preparing for the implementation of Basel II guidelines, applying advanced risk management tools, upgrading related information technology system and continuously enhancing our risk identification, measurement, monitoring and control capabilities; and
- further streamlining our internal control organization structure, continuously examining and improving our internal control policies and procedures and supervising and evaluating the implementation of such policies and procedures to enhance the effectiveness of our internal control system.

Attract, Motivate and Develop Talented and Experienced Professionals

We believe a key to our success is our ability to recruit, retain, motivate and develop talented and experienced professionals. We intend to:

- continue to enhance our human resources management to meet our growth plans and our business needs;
- continue to focus on the recruitment and cultivation of a high-quality and professional workforce, provide training and development programs for our employees to enhance their professional knowledge and capabilities, and create a collegial culture that promotes our employees' personal and professional development; and
- continue to improve our management and employee incentive programs, including an enhanced economic value-added based incentive scheme, to align compensation with employee performance.

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OUR PRINCIPAL BUSINESSES

Our business segments consist of corporate banking, retail banking, treasury operations and other operations. The following table sets forth, for the periods indicated, our operating income by business segments.

	For the year ended December 31,					
	2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate banking	96,592	52.6%	116,375	54.4%	123,105	55.0%
Retail banking	61,013	33.3	67,996	31.8	73,614	32.9
Treasury operations	24,238	13.2	29,073	13.6	26,109	11.7
Other operations	1,608	0.9	572	0.2	809	0.4
Total	183,451	100.0%	214,016	100.0%	223,637	100.0%

Corporate Banking

Corporate banking constitutes our primary source of income and has consistently contributed more than 50% of our total operating income. We offer a broad range of corporate banking products and services to corporations and other entities, including state-owned enterprises, private enterprises, foreign-invested enterprises and government agencies, which we collectively refer to as our corporate banking customers. Our corporate banking business consists primarily of corporate lending, discounted bills, corporate deposits, clearing and settlement services, cash management, investment banking, custody services, corporate treasury services, guarantee services, third-party depository and futures margin depository and other agency services. Corporate banking accounted for 55.0%, 54.4% and 52.6%, of our total operating income in 2009, 2008 and 2007, respectively. Our domestic corporate loans accounted for 71.7%, 76.1% and 79.5% of our total loans, and our domestic corporate deposits accounted for 38.7%, 35.5% and 39.9% of our total deposits from customers at December 31, 2009, 2008 and 2007, respectively.

Customer Base

As of December 31, 2009, we had approximately 2.60 million corporate customers, of which approximately 68,000 had outstanding loans from us.

At December 31, 2009, our major corporate loan customers were concentrated in (i) manufacturing, (ii) real estate, (iii) production and supply of power, gas and water and (iv) transportation, logistics and postal services industries, which accounted for 29.9%, 14.4%, 13.9% and 10.2%, respectively, of our total corporate loans outstanding.

In addition to expanding our customer base, we have focused on optimizing our customer mix by developing relationships with large state-owned enterprises, industry-leading companies and government agencies.

As of December 31, 2009, we established business relationships with 62 out of 129 large-scale state-owned enterprises supervised by the SASAC and a large number of leading companies in the energy and resources, telecommunications, aviation, iron and steel, automobile, chemical engineering and electronics industries, including all of China's major power grid companies, national power

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generation companies, national petroleum companies and national telecommunications service providers.

Major Products and Services

Corporate Loans

Corporate loans have historically constituted the largest component of our loan portfolio. Our corporate loans include working capital loans, real estate development loans, project loans and trade finance products. Our corporate loans consist substantially all of our RMB-denominated loans. At December 31, 2009, we had RMB2,968.7 billion in domestic corporate loans outstanding, accounting for 71.7% of our total loans.

Working Capital Loans

We provide working capital loans to our customers primarily to meet their working capital needs. Our working capital loans are typically short-term loans. At December 31, 2009, we had RMB1,377.3 billion of working capital loans outstanding, representing 46.4% of our total domestic corporate loans, an increase of 15.5% from December 31, 2008.

Real Estate Development Loans

We provide real estate development loans to our corporate banking customers to meet their property development funding needs, including residential property development loans, commercial property development loans, land development loans, business property mortgage loans and loans for government authorized land reserve. At December 31, 2009, we had property development loans of RMB432.5 billion outstanding, accounting for 14.6% of our total domestic corporate loans outstanding, RMB157.3 billion of which consisted of residential property development loans, representing 36.4% of our total property development loans.

We offer business property mortgage loans to owners of shopping malls, office buildings, serviced apartments and manufacturing plants. The underlying properties serve as collateral for the loans while the income generated from the operations of the properties typically constitutes the primary source of repayment for the loans. At December 31, 2009, our business property mortgage loans outstanding were RMB87.1 billion, representing an increase of 47.7% from December 31, 2008.

Project Loans

We provide project loans to our corporate customers primarily to meet their funding needs associated with various fixed asset investment projects, such as infrastructure development and technical improvements. At December 31, 2009, we had project loans of RMB635.1 billion outstanding, accounting for 21.4% of our total domestic corporate loans outstanding and an increase of 24.7% over the prior year.

Trade Finance

We provide trade finance services to customers engaging in international trade primarily through three families of products, namely “Foreign Exchange Financing for Imports” (“進口融匯通”), “Foreign Exchange Financing for Exports” (“出口融匯通”) and “Receipt and Payment Express”

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(“收付通”)。 Each family of these products integrates certain functions of our trade finance products and services. Our primary trade finance products and services include letters of credit, import bill advances, shipping guarantees, packing loans, forfaiting, export bill discounting, export invoice financing, export credit insurance financing, per aval and international factoring. The volume of international trade finance transactions conducted by our domestic branch outlets amounted to US\$27.1 billion, US\$20.2 billion and US\$17.7 billion in 2009, 2008 and 2007, respectively, representing a CAGR of 23.6% over this period.

Small Business Loans

As one of the first banks to start specialized management of services for small businesses, we established a dedicated management unit to serve small businesses in 2006. The unit was further reorganized into the Small Business Finance Department in 2009 to further enhance the efficiency and quality of our services to small business customers. We continue to improve the specialized management of our small business loans and have implemented a one-stop review and approval process for credit applications made by small business customers. At December 31, 2009, we had small business loans (including discounted bills) of RMB376.6 billion outstanding.

In addition to traditional financing and credit products and services, we also provide small business customers with unique products such as “Easy Loans” (“簡式快速貸款”), “Self-Service Revolving Credit Facilities” (“自助可循環貸款”) and supply chain financing.

The Easy Loans are designed for small businesses that require small credit lines. Applicants can go through the credit rating, approval and disbursement process more efficiently. At December 31, 2009, our outstanding Easy Loans were RMB25.6 billion, representing an increase of 98.6% over the prior year.

The Self-Service Revolving Credit Facilities are designed to meet the working capital requirements arising from the operations of our small business customers. Within the given credit limits, small business customers can access the revolving credit facilities through either bank counters or ATMs. At December 31, 2009, we had RMB1.0 billion in outstanding Self-Service Revolving Credit Facilities, representing an increase of 37.3% over the prior year.

Syndicate Loans

We provide syndicate loans to borrowers, as the lead arranger or as a participant, in collaboration with other banks or non-financial institutions, typically in connection with large-scale construction and development projects. At December 31, 2009, we had syndicate loans of RMB136.5 billion outstanding, representing 4.6% of our total domestic corporate loans outstanding. In 2009, we were awarded the “Best Achievement in Syndicate Loans Award” by the *China Banking Association*.

Discounted Bills

Discounted bills refer to our discounted purchase of bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months. Bill discounting is a form of short-term financing provided to corporate customers. We may resell these bills to the PBOC or other financial institutions authorized to conduct bill discounting, providing us with additional liquidity and spread income. At December 31, 2009, we had domestic discounted bills of RMB352.2 billion

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outstanding, representing 8.5% of our total loan portfolio. At December 31, 2009, bank acceptance bills accounted for 90.1% of our total discounted bills outstanding.

Corporate Deposits

We offer our corporate customers time and demand deposits in Renminbi and major foreign currencies. In addition, we offer a call deposit product that bears a higher interest rate than those of demand deposits but also retains some of the flexibility of demand deposits by allowing our customers to withdraw money with one or seven days' prior notice. At December 31, 2009, our total corporate deposits increased by 34.1% to RMB2,901.2 billion from RMB2,163.9 billion at December 31, 2008.

Fee- and Commission-based Products and Services

We provide our corporate customers with a broad range of fee- and commission-based products and services, including settlement services, cash management, investment banking, custody services, corporate treasury services, guarantee services, agency services and depositary services for securities transaction clearing fund and futures margin. As we have focused on developing and offering fee- and commission-based corporate banking products and services in recent years, this segment of our corporate banking business has grown significantly and generated net fee and commission income of RMB20.0 billion, RMB8.7 billion and RMB10.8 billion in 2009, 2008 and 2007, respectively, representing a CAGR of 36.1% over this period.

Settlement Services

We offer broad and convenient settlement services through a wide range of channels such as bank counters, Internet banking, phone banking, ATMs and POS. By leveraging our strength in traditional settlement services, we continue to promote the usage of electronic settlement accounts, through which our customers can settle payments online. As of December 31, 2009, we had approximately 3.15 million RMB-denominated corporate settlement accounts with a settlement transaction volume of RMB144.2 trillion for the year ended December 31, 2009.

Our international settlement services include documentary letters of credit, documentary collection, remittances and clean collection. We have developed a centrally-managed global transaction system (GTS) for international settlement to further enhance our professional services. In 2009, the international settlement volume of our domestic branches totaled US\$349.1 billion. In 2009, our domestic branches generated income of RMB918 million from international settlement services.

We have traditionally been a leading participant in cross-border trade settlement and were one of the first banks to introduce this service. In 2009, our transaction volume for cross-border trade settlement rose to US\$5.3 billion.

Cash Management

We provide integrated cash management services to our corporate customers for their liquidity management, including, account management, information services, collection and disbursements, trade settlement, investment and financing services. Cash management services are particularly useful for large companies that need to centrally manage their cash flow across many locations or subsidiaries. In 2009, we introduced our new cash management brand "Sailing Cloud" ("行雲") through

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which we offer customers integrated global services in both RMB and foreign currencies. As of December 31, 2009, we had approximately 51,000 cash management customers, representing an increase of 48.5% from December 31, 2008. The total transaction volume processed by our cash management services reached RMB32.9 trillion in 2009. Our customers include 55% of the Top 100 Chinese Enterprises and approximately 35% of the Top 500 Chinese Enterprises. In 2009, we were honored by *Asian Banker* magazine as the winner of the “Annual Achievement Award on Cash Management (China)” and received the “Cash Management Business Innovation” award at the *21st Century Asian Finance Annual Conference*.

Investment Banking

We provide investment banking services to our corporate customers and engage in financial advisory services, restructuring and acquisition services, underwriting of debt instruments such as commercial paper and medium-term notes, fixed-income investment advisory services and asset securitization advisory services. By leveraging our traditional corporate banking customer relationships, our investment banking business has grown rapidly. From 2007 to 2009, revenue generated from our investment banking services increased at a CAGR of 292.2% to reach RMB5.9 billion in 2009.

Through our financial advisory service platform, we provide our customers with financial advice, business plan formulation and in-depth industry and financial markets analysis. We had approximately 25,000 contracted customers for our financial advisory services as of December 31, 2009. Our financial advisory services generated revenues of RMB4.4 billion in 2009, representing a 300.3% increase from 2008. We actively promote product innovation in investment banking, such as the introduction in the PRC of the first foreign currency-denominated medium-term note, the first private company medium-term notes and the pilot test of collective notes for rural and agricultural small businesses. We were recognized by *Securities Times* as the “Best Innovative Investment Bank” and the “Best Investment Bank on Debt Underwriting” in both 2009 and 2010.

Custody Services

We have one of the most comprehensive custody services among all commercial banks in China. Assets under custody primarily include assets of investment funds, insurance assets, corporate annuities, investments managed by QFIIs and QDIIs, certain customer assets of fund management companies, collective investment scheme funds managed by securities firms and private equity funds. Our custody services include custody, fund clearing, asset valuation, investment monitoring and custody reporting services. In addition, we offer value-added services, such as providing market information, research reports and tax consultation. We seek to continuously streamline the business process and enhance the effectiveness and soundness of our internal control systems in respect of custody services on an ongoing basis and have successfully passed SAS70 international authentication for internal control. Furthermore, we were named the “Bank with the Best Custody Service in 2008” by the Annual China Funds Summit held by the *Securities Association of China*.

We are the largest insurance assets custodian and the second largest custodian in China in terms of assets under custody. As of December 31, 2009, we had RMB1,391.3 billion in assets under custody, of which RMB845.8 billion was insurance assets. In 2009, we generated fees and commissions of RMB761 million from custody and other fiduciary services.

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We started our pension fund custody business in 2008, which has developed to cover corporate annuities, pension funds for farmers and social security funds. As of December 31, 2009, pension funds under custody amounted to RMB73.7 billion, representing an increase of 368.7% over the prior year.

Corporate Treasury Services

Our corporate treasury services include the provision of asset securitization services, asset management services as well as treasury products and services to our corporate customers. We have made efforts to introduce flexible and stable corporate treasury products denominated in both Renminbi and foreign currencies. In 2009, we placed corporate treasury services products with a total amount of RMB84.8 billion.

Guarantee Services

We provide surety services for our corporate banking customers primarily through performance guarantees, bid guarantees, prepayment guarantees and quality guarantees. We generated fees and commissions of RMB772.0 million from our guarantee services in 2009 and achieved a CAGR of 15.7% from 2007 to 2009.

Third-party Depository and Futures Margin Depository

We offer third-party depository services to securities firms in respect of settled funds for securities trading and to futures companies and exchanges in respect of futures margins. As of December 31, 2009, we offered third-party depository services to 93 securities firms, or 87.0% of all domestic securities firms, and our contracted customers reached 9.45 million. In 2009, the aggregate daily average balance of funds deposited from securities firms amounted to RMB106.7 billion, and we generated fees and commissions of RMB178 million in relation to this business, a CAGR of 101.1% from 2007 to 2009.

We have established business relationships with three major domestic commodities and futures exchanges as well as the China Financial Futures Exchange. As of December 31, 2009, we offered margin depository service to 161 domestic futures companies, and the outstanding margin deposit was RMB19.1 billion.

Agency Services for Government Revenues and Expenditures

We provide agency services to central and local governments in respect of collection of revenues and payment of expenditures. In 2009, we provided agency services to the treasury of PRC central government with an aggregate transaction volume totalling RMB157.6 billion.

Other Products and Services

In addition to the products and services described above, we cooperate with other banks and non-banking institutions and participate in factoring, mutual and common entrustment.

Marketing

Our head office is responsible for formulating our overall corporate business development plans and establishing our general marketing guidelines based on industry, geographical region, customer

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and product considerations. Our tier-1 branches develop detailed marketing plans tailored to key regions, customers and businesses based on these guidelines.

We conduct customer segmentation to implement differentiated marketing strategies. We classify our key customers into three categories and assign them to the head office, tier-1 branches and tier-2 branches, respectively. We employ marketing strategies customized for specific customers and markets. We strategically allocated more resources to certain of our tier-1 and tier-2 branches and encourage them to grant more flexibility to their sales department catering to local market.

Marketing for corporate banking is conducted primarily by our relationship and product managers across different departments. We promote cooperation among the different departments and set up matrix marketing and service programs.

We promote individualized marketing and cross-selling to meet the specific needs of our customers. We adopt a marketing model which focuses on using one principal product or service to drive the sale of additional products or services, namely a “1+N Model” to grow our business. Moreover, we cooperate with securities firms, insurance companies and futures companies to develop third-party depository, bancassurance and fund transfer businesses with futures companies to strengthen the interaction between corporate and retail banking.

Retail Banking

We provide our retail banking customers with a broad range of products and services, including retail loans, bank cards, retail deposits, settlement, bancassurance, personal wealth management and other fee- and commission-based products and services.

In 2009, our retail banking business generated operating income of RMB73.6 billion, representing 32.9% of our total operating income. At December 31, 2009, we had the second largest domestic retail deposit base among all commercial banks in China, with RMB4,365.4 billion in domestic retail deposits, representing 58.2% of our total deposits. At December 31, 2009, our domestic retail loans outstanding amounted to RMB789.3 billion, representing 19.1% of our total loans. As of December 31, 2009, we had issued 365 million bank cards. We were consistently ranked first among all commercial banks in China in terms of the total number of bank cards issued as of the end of each year from 2006 to 2009.

Customer Base

As of December 31, 2009, we had approximately 320 million retail banking customers. Of these customers, approximately 8.24 million were retail loan customers, of which approximately 2.69 million were residential mortgage loan customers and approximately 300,000 were private business loan customers. As of December 31, 2009, we had approximately 3.01 million customers, each with a deposit balance above RMB200,000, accounting for 38.2% of our total retail deposits. This represented an increase of 31.8% from December 31, 2008. As of December 31, 2009, we had more than 20,000 customers with a deposit balance above RMB5 million, representing an increase of 65.3% from December 31, 2008. These customers' deposits accounted for 4.9% of our total retail deposits at December 31, 2009.

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Major Products and Services

Retail Loans

At December 31, 2009, we had a total of RMB789.3 billion in domestic retail loans outstanding, which accounted for 19.1% of our total loans. This represented an increase of 69.9% from December 31, 2008.

Residential Mortgage Loans

We provide our customers with floating-rate residential mortgage loans, fixed-rate residential mortgage loans and hybrid-rate residential mortgage loans. Our residential mortgage loans are generally secured by the underlying property being purchased. At December 31, 2009, our residential mortgage loans outstanding amounted to RMB497.9 billion, representing 63.1% of our total domestic retail loans outstanding.

Personal Consumption Loans

We provide a variety of personal consumption loans including personal credit lines, consumer auto loans, comprehensive consumer loans and retail loans secured by pledges. At December 31, 2009, we had RMB85.6 billion of personal consumption loans outstanding, representing 10.8% of our total domestic retail loans.

We provide credit to a retail customer when the customer provides us with the required mortgage, pledge or guarantee or when we are otherwise satisfied with the credit-worthiness of the customer. Within the granted credit line, a customer has quick access to credit during a designated period on a revolving basis. Personal credit line services are only available to our high-quality customers who have made a higher contribution than other customers to our deposit, loan and fee-based business. At December 31, 2009, we had outstanding RMB60.0 billion in personal credit line representing an increase of 156.8% from the end of 2008.

We extend consumer auto loans for up to 80% of the purchase price of the automobile and usually require collateral for the loan. At December 31, 2009, we had RMB10.4 billion in consumer auto loans outstanding, an increase of 10.6% over 2008.

We extend comprehensive consumer loans for living-related expenses and general consumption such as home renovation, car parking spaces, large-ticket durable goods and overseas education. At December 31, 2009, we had comprehensive consumer loans outstanding of RMB10.2 billion, representing an increase of 100.7% from the end of 2008.

Loans to Private Businesses

Loans to private businesses are generally granted to private business owners to meet their funding needs arising from their operations, primarily including loans to finance the operations of private businesses, commercial mortgage loans to private businesses and auto loans to private businesses. At December 31, 2009, we had RMB106.0 billion in loans to private businesses outstanding, which represented 13.4% of our total domestic retail loans outstanding.

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Overdraft on Personal Bank Cards

Our credit card and quasi-credit card customers are allowed to withdraw or overdraft through our credit consumption function. At December 31, 2009, the outstanding overdraft amounts for our personal bank cards totaled RMB14.1 billion, which represented 1.8% of our total domestic retail loans outstanding.

Other Retail Loans

We offer other types of retail loans to customers, such as loans to rural households and education loans. At December 31, 2009, our outstanding amount for these types of retail loans was RMB85.7 billion, which represented 10.9% of our total domestic retail loans outstanding.

Bank Cards

We offer integrated card products and services to personal customers under the brand name “Kins Card,” which consist of RMB-denominated debit cards, credit cards and quasi-credit cards and dual-currency credit cards denominated in RMB and U.S. dollars.

As of December 31, 2009, we issued 365 million bank cards, ranked first among the Large Commercial Banks. Our merchants network had approximately 274,000 members, representing an increase of 80.2% from December 31, 2008. In 2009, total transaction volume for our bank cards was RMB1,410.8 billion, which ranked second among all commercial banks in China. The total fees and commissions generated by our bank card business in 2009 were RMB4.8 billion, representing a 26.1% increase from 2008.

We are one of the founding members of China Unionpay, the Chinese bank card network organization. Our bank cards are accepted through our own network in China and the domestic and overseas network of China Unionpay. Our dual-currency credit cards are also accepted outside of China through MasterCard and Visa networks.

The table below sets forth, for the periods indicated, the number of bank cards issued and the total transaction volumes for these bank cards.

<u>Item</u>	<u>As of December 31,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(in thousands)		
Number of debit cards issued	310,438	334,115	347,468
Number of credit cards issued	3,252	9,277	15,428
Number of quasi-credit cards issued	2,950	2,716	2,516
Total	<u>316,640</u>	<u>346,108</u>	<u>365,412</u>
	<u>For the year ended December 31,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(in millions of RMB)		
Transaction volume for debit cards	658,493	775,271	1,292,044
Transaction volume for credit cards	15,918	52,372	107,368
Transaction volume for quasi-credit cards	15,672	15,072	11,345
Total	<u>690,083</u>	<u>842,715</u>	<u>1,410,757</u>

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Kins Debit Card

We issue debit cards to customers who maintain deposit accounts with us and directly deduct from the cardholder's deposit accounts payments for transactions. Our Kins debit card provides our customers with access to various financial services including cash deposit and withdrawal, fund transfer, settlement and bill payment. In addition, the Kins debit card provides customers with enhanced services, such as arranged deposits, automatic payments, investment trading, withholding and collections. Our income on debit cards primarily consists of commissions we collect from merchants accepting our cards and annual fees and other service fees we collect from cardholders.

We seek to enhance the services we provide to holders of our Kins debit card to maintain our leading position in terms of the number of cards issued and total transaction volume processed through these cards. As of December 31, 2009, we had issued 347.5 million debit cards, the most among all commercial banks in China, and total transaction volume for the year 2009 on these cards was RMB1,292.0 billion, the highest among all commercial banks in China.

Kins Credit Card and Quasi-credit Card

We issue RMB-denominated credit cards and quasi-credit cards and dual-currency credit cards, which are centrally managed by our credit card center. Our credit card center maintains independent accounting and management systems and coordinates with our branches to facilitate credit card and quasi-credit card related marketing, application, approval, card distribution, account management and customer service functions.

We issue Kins credit cards, which grant credit to cardholders to make payments to merchants or enable cardholders to withdraw cash from ATMs in the China Unionpay, VISA and MasterCard networks. Our Kins dual-currency credit cards can be used in China and overseas to purchase goods and services denominated in RMB and U.S. dollars. Our Kins dual-currency credit cards are accepted globally through China Unionpay, VISA and MasterCard systems. We aim to diversify the types of cards and currently offer a wide product selection including, among others, VIP cards, credit cards for work-related spending by corporate or government employees, travel cards, retail cards, dining cards and public interest cards. In addition, we intend to continue to enhance the quality of our Kins credit cards by further implementing new features, including multiple repayment solutions, card loss protection, overseas support, offline payment, real-time monitoring and a 24-hour service hotline. We received the "Best Growth Award for Dual-Currency Cards" award and the "Best Product Design Award" from *MasterCard International* in 2007 and 2008, respectively.

As of December 31, 2009, we had issued approximately 15.4 million credit cards, representing a CAGR of 117.8% from the end of 2007 to the end of 2009. In 2009, the total transaction volume for our credit cards was RMB107.4 billion, representing a CAGR of 159.7% from 2007 to 2009.

We also issue Kins quasi-credit cards which, as compared to Kins credit cards, require the cardholder to maintain deposit accounts with us. Payments for transactions conducted through Kins quasi-credit cards will first be deducted from the cardholder's deposit accounts. After all deposits in the cardholders' accounts have been used up, the quasi-credit cardholders will then be able to utilize the granted credit line.

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We assess the credit lines granted to holders of Kins credit cards and quasi-credit cards based on a number of factors, such as their personal background, family status, employment status, relationship with us, as well as the value and type of guarantee and collateral provided.

Our income on credit cards and quasi-credit cards consists primarily of commissions we collect from merchants accepting our cards and annual fees, interest, settlement fees and late payment penalties that we collect from our cardholders. As credit cards become an increasingly accepted payment alternative in China, we expect our credit card business to continue to experience significant growth.

Retail Deposits

We offer retail demand deposits and time deposits in Renminbi and foreign currencies to our retail banking customers. Retail demand deposits include general demand deposits and flexible-term deposits. Retail time deposits consist of general time deposits, call deposits, education savings deposits, and deposits and withdrawals in lump sums, deposits in installments while withdrawing in lump sums and time deposits with periodic interest payments that can be withdrawn on demand. We currently offer regular time deposit products with terms ranging from three months to five years for RMB-denominated deposits and one month to two years for foreign currency-denominated deposits.

Our domestic retail deposits amounted to RMB4,365.4 billion at December 31, 2009, accounting for 58.2% of our total outstanding deposits. According to the PBOC, the total amount of our retail deposits outstanding accounted for 16.5% of total retail deposits of all banking institutions in China, the second largest among all commercial banks in China. We had a CAGR of 21.0% from the end of 2007 to the end of 2009 in the amount of outstanding domestic retail deposits.

Fee- and Commission-based Products and Services

We offer retail banking customers products and services, such as bancassurance, personal wealth management, personal settlement and agency sales of PRC government bonds, fund products and physical gold. In 2009, our net fees and commissions relating to our retail banking business amounted to RMB15.7 billion, representing a CAGR of 13.3% from 2007 to 2009.

Bancassurance

We distribute insurance policies as an agent for insurance companies. We have been actively expanding our relationships with insurance companies, which has enabled us to maintain a leading position among all commercial banks in China. As of December 31, 2009, we had entered into cooperation agreements with 59 insurance companies, which covered most of the domestic insurance companies.

In 2009, we collected RMB123.5 billion in insurance premiums from our sales of insurance products, of which RMB72.8 billion was new insurance premiums, the latter representing the largest among all commercial banks in China. In 2009, we received fees and commissions from our bancassurance business of RMB2.8 billion and were the second largest among all commercial banks in China, and representing a CAGR of 44.5% from 2007 to 2009.

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Distribution of Fund Products

In collaboration with approximately 50 fund management companies and securities firms, we distribute various fund products as an agent. As of the end of 2009, we had placed 435 funds. In 2009, we distributed fund products with a total transaction volume of RMB163.0 billion and received fees and commissions of RMB1.2 billion.

Personal Wealth Management Services

We have a comprehensive portfolio of product for our personal wealth management services. In 2009, we placed RMB- or foreign currency-denominated wealth management products with total transaction volume of RMB133.4 billion. We were named the “Best Bank for Foreign Currency Wealth Management” in the rankings of China’s Best Financial Institutions for 2008 jointly released by *China Financial News* and the *Financial Research Institute of the Chinese Academy of Social Sciences*.

Agency Sales of PRC Government Bonds

In 2009, we acted as an agent for the issuance of certificated PRC government bonds of RMB24.0 billion and the cashing of certificated PRC government bonds of RMB25.9 billion. We also served as an agent for the sale of electronic PRC government bonds of RMB17.5 billion. We were named by the *MOF* and the *PBOC* as one of the “2008/2009 Outstanding Underwriters of Certificated PRC Government Bonds” and by the *MOF* as one of the “2009 Outstanding Underwriters of PRC Government Bonds in Book Entry Form.”

Settlement Services

We offer settlement services to our retail banking customers, including RMB- and foreign currency-denominated money transfer and remittance services, collection services and settlement of cashier’s checks, bank drafts and checks. In 2009, the business volume of our RMB-denominated settlement amounted to RMB90.2 trillion. We also provide settlement services to merchants in respect of payments made with debit cards, credit cards and quasi-credit cards. As of December 31, 2009, we provided such settlement services to approximately 274,000 merchants.

Agency Sales of Gold Bullions

We act as agent for gold companies to trade physical gold in designated branches. We were among the first banks to open gold bullion counters for our retail banking customers. In 2009, our transaction volume for gold bullion was 1,560 kilograms with aggregate sales of RMB340 million.

Marketing

Our head office formulates overall marketing strategies, guidelines and standards for promoting our retail banking products and services. Our tier-1 branches formulate specific marketing plans in accordance with instructions from our head office, tailor such plans to specific regions, customer preferences and market conditions.

We have consolidated retail banking services into four major product lines consisting of basic accounts, investments and personal wealth management, retail loans and credit card services. Within each product line, we aim to select primary products, establish key brands and prioritize the development of key products. Among our “Golden Key” (“金鑰匙”) family of products, we offer

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“Jijinbao” (“基金寶”) for our funds business, “Benlifeng” (“本利豐”), “Huilifeng” (“匯利豐”), “Jingwaibao” (“境外寶”) and “Caifubao” (“財富寶”) for our personal wealth management business, “Haoshidai” (“好時貸”) for retail loans and “Heirlooms” (“傳世之寶”) for sales of physical gold.

We segment our customers into general customers and mid- to high-end customers. Our marketing efforts to general customers are primarily based on outreach from our relationship managers, presentations given at our branches and general media advertisements. For our mid- to high-end customers, we introduce customized financial products bundled with exclusive and value-added services tailored to our customers’ individual risk preferences, financial goals and service preferences. We have also adopted an advanced customer data mining and segmentation, such as the Personal Client Relationship Management (PCRM) system and Golden Key Client Fortune Expert (CFE) system, to further improve the quality of our services.

We provide ongoing training to our dedicated personal wealth management advisors. As of December 31, 2009, we had over 20,000 retail banking relationship managers and wealth management advisors, over 7,000 associate financial planners (AFP), over 800 certified financial planners (CFP), and over 400 executive financial planners (EFP). Furthermore, we have established 852 high-end wealth management centers including 838 Golden Key wealth management centers and 14 Golden Key fortune centers.

Treasury Operations

Our treasury operations consist primarily of (i) money market activities, (ii) investment and trading activities, (iii) treasury transactions on behalf of customers, and (iv) gold trading and other businesses. In conducting our treasury operations, we seek to ensure our liquidity and achieve a balance between returns and risks on our investment portfolio, taking into consideration the market and macroeconomic conditions. In 2009, operating income from our treasury operations was RMB26.1 billion, representing 11.7% of our total operating income.

Money Market Activities

Our money market activities primarily consist of (i) inter-bank money market activities, repurchase and reverse repurchase transactions and (ii) public market bidding, including bidding for repurchase and reverse repurchase transactions by the PBOC, PBOC bills and national treasury cash administration. The securities underlying our inter-bank repurchase and reverse repurchase transactions are predominantly RMB-denominated PRC government and policy bank bonds, bank acceptance bills and PBOC bills, with a portion of foreign currency-denominated bonds primarily issued by foreign governments and agencies.

We were one of the first banks to be approved by the PBOC to engage in SHIBOR quoting. We were named an “Outstanding Trade Member” from 2002 to 2008 in the inter-bank money market of China for seven consecutive years and “Most Influential Market Participant” in 2009 by the *Chinese Inter-bank Lending Association*. As one of the SHIBOR-quoting banks, we provide daily quotes according to our own liquidity and capital supply and demand. In 2009, our RMB-denominated financing volume was RMB6,587.2 billion.

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Investment and Trading Activities

At December 31, 2009, the value of our investment portfolio was RMB2,616.7 billion, representing an increase of 13.3% from December 31, 2008. At December 31, 2009, financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and receivables were RMB112.2 billion, RMB730.4 billion, RMB883.9 billion and RMB890.2 billion, which accounted for 4.3%, 27.9%, 33.8% and 34.0% of our total investment portfolio, respectively. See “Assets and Liabilities—Assets—Investment Securities and Other Financial Assets.”

Trading Activities

We purchase and sell various highly-liquid debt securities and bills for trading purposes, from which we seek to obtain short-term profits. We primarily invest in debt securities issued by the PRC government, PBOC bills and debt securities issued by foreign governments. We classify such trading securities as financial assets at fair value through profit or loss, and we employ strict stop-loss and other limits for such trading transactions. In addition, we hedge our investment risks through the purchase of derivative financial instruments, such as interest rate swap contracts.

Investment Activities

We set the target returns on available-for-sale financial assets, held-to-maturity investments and receivables, principally through our assessment of the interest rate, exchange rate, credit, liquidity, macroeconomic trends and other risks associated with the investment. In the domestic market, we primarily invest in debt securities issued by the PRC government, PBOC bills, debt securities issued by the policy banks and, to a lesser extent, debt securities issued by other financial institutions and non-financial institutions. In light of the global macroeconomic environment, a substantial portion of our debt securities denominated in foreign currencies are short-term.

Treasury Transactions on Behalf of Customers

We are one of the first commercial banks in China approved to provide forward settlement services and other financial derivative products. We also engage in a broad range of treasury transactions on behalf of our corporate and retail banking customers. In addition, we primarily provide settlement, foreign currency trading, foreign currency derivatives trading and treasury services on behalf of our customers through our treasury operations. From 2007 to 2009, we were named the “Most Outstanding Market Maker,” the “Most Influential Market Maker” and the “Best Derivatives Market Maker” by the *China Foreign Exchange Trading Center*.

Gold Trading

We engage in gold trading for our own account and on behalf of our customers. In 2009, we traded gold for our own account and on behalf of our customers with a volume of 137.2 tons and 31.4 tons, respectively. We were named “Most Outstanding Trading Member” in 2009 by *Shanghai Gold Exchange*.

Overseas Operations

We conduct our overseas operations through our two branches in Hong Kong and Singapore, our subsidiaries in Hong Kong and our representative offices in New York, London, Tokyo, Frankfurt, Seoul and Sydney. In addition, as of December 31, 2009, we had established correspondent

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relationships with 1,201 foreign banks in 108 countries. Our overseas branches and subsidiaries had total assets of RMB40.9 billion at December 31, 2009 and generated profit before tax of approximately RMB600 million in 2009.

Our Hong Kong branch holds a banking business license and focuses on corporate banking business, providing domestic and overseas companies with syndicate loans, working capital loans, bond underwriting and distribution, international settlement, trade finance and deposit-taking services. At December 31, 2009, the total assets of our Hong Kong branch were RMB31.7 billion.

Our Singapore branch holds an offshore banking business license and focuses on corporate banking, providing domestic and overseas companies with commercial banking products and services. At December 31, 2009, the total assets of our Singapore branch were RMB8.6 billion.

ABC International Holdings Limited and China Agriculture Finance Co., Ltd. are among our wholly-owned subsidiaries incorporated in Hong Kong. ABC International Holdings Limited engages in investment banking activities through its operating subsidiaries, primarily corporate finance, securities brokerage, principal investments and fund management.

Our overseas representative offices do not conduct business operations, and they primarily carry out liaison and information collection activities.

PRODUCTS AND SERVICES PRICING POLICY

The interest rates we charge on our RMB-denominated loans are generally regulated by the PBOC. For RMB-denominated corporate loans and retail loans (other than residential mortgage loans and credit card balances), we are not permitted to set the interest rate lower than 90% of the relevant PBOC benchmark rate, but there has been no upper limit since October 29, 2004. With respect to interest rates for residential mortgage loans, the lowest interest rates we can charge on residential mortgage loans is 70% of the PBOC benchmark interest rate of the same term. See “Supervision and Regulation—PRC Banking Supervision and Regulation—Pricing of Products and Services—Interest Rates for Loans and Deposits.” Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and we are permitted to negotiate the interest rates on such loans.

Interest rates for our RMB-denominated demand and regular time deposits cannot be higher than the applicable PBOC benchmark rate. However, we are permitted to provide negotiated time deposits to insurance companies, the National Council for Social Security Fund and China Post under certain circumstances. We are permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than US\$3 million or equivalent. See “Supervision and Regulation—PRC Banking Supervision and Regulation—Pricing of Products and Services—Interest Rates for Loans and Deposits.”

With respect to fee- and commission-based business, certain services are subject to government guideline prices, such as basic Renminbi settlement services specified by the CBRC and the NDRC. See “Supervision and Regulation—PRC Banking Supervision and Regulation—Pricing of Products and Services—Pricing for Fee and Commission-based Products and Services.”

Our Asset and Liability Management Committee is responsible for determining our pricing policies. In compliance with the provisions of applicable regulatory requirements, we price our

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products based on various criteria, such as the risk profile of our assets, an individual customer's contribution to our business, our costs, the expected risk- and cost-adjusted returns and our internal fund pricing benchmarks. In addition, we consider general market conditions and prices for similar products and services offered by our competitors.

Currently, our tier-1 branches have implemented centralized treasury operations. Subject to the approval of our Asset and Liability Management Committee, our Asset and Liability Management Department determines our internal transfer pricing benchmarks based on a number of factors, including prevailing interest rate trends in the China's capital markets, the interest rate structure of our deposits and loans, and the strategies and objectives set by our Asset and Liability Management Committee.

Our Fee- and Commission-based Business Management Committee is responsible for the development of, and pricing policies applicable to, our fee- and commission-based business. In principle, our Fee- and Commission-based Business Management Committee adjusts the prices of fee- and commission-based products annually based on several factors, such as our fee collection rate and changing market conditions.

DISTRIBUTION CHANNELS

Our distribution network consisted of 23,624 domestic branch outlets nationwide as of December 31, 2009 and is complemented by comprehensive electronic banking channels. We provide our customers with convenient services through our multi-channel distribution network.

Branch Outlets

As of December 31, 2009, we had 23,624 domestic branch outlets, and were ranked first in terms of the number of branch outlets among the Large Commercial Banks. Our branch outlets consist of our head office, 32 tier-1 branches, five branches directly managed by the head office, 307 tier-2 branches, 3,520 tier-1 sub-branches and 19,759 other establishments. Our head office is located in Beijing, and is responsible for the overall decision-making and management of us. Our tier-1 branches are located at the capital cities of the provinces, autonomous regions and directly-controlled municipalities in China. The tier-1 branches serve as the regional head office managing all the branch outlets in the respective regions and directly report to our head office. Our tier-2 branches are generally located in prefectural-level cities within the provinces and autonomous regions. The tier-2 branches report to the respective tier-1 branches in each of the regions. In addition to carrying out their own operations, our tier-2 branches are also responsible for the management of lower-tier branch outlets. Our tier-1 sub-branches are primarily responsible for the business operations and management of outlets and report to the tier-2 branches directly above them. Our other establishments are primarily branch outlets that provide financial services directly to customers but are not classified as any of the above categories.

Our branch outlets cover 100% of the provincial-level administrative region, 100% of the prefectural-level cities, and 99.5% of the county-level administrative regions. We believe we are the only Large Commercial Bank to have branch outlets covering all of the cities and most of the counties in China.

We have extensive coverage of the economically developed areas in China. As of December 31, 2009, we had 3,116, 2,590 and 3,355 branch outlets in the Yangtze River Delta, Pearl

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River Delta and Bohai Rim areas, respectively, more than other Large Commercial Banks in each of these regions.

The following table sets forth, for the periods indicated, the number of our domestic branch outlets by geographical region.

Regions	As of December 31,					
	2007		2008		2009	
	Number	% of total	Number	% of total	Number	% of total
Head Office ⁽¹⁾	4	0.0%	4	0.0%	4	0.0%
Yangtze River Delta	3,212	13.1	3,162	13.1	3,116	13.2
Pearl River Delta	2,701	11.1	2,661	11.1	2,590	11.0
Bohai Rim	3,649	14.9	3,490	14.5	3,355	14.2
Central China	5,310	21.7	5,288	22.0	5,243	22.2
Northeastern China	2,375	9.7	2,311	9.6	2,233	9.4
Western China	7,201	29.5	7,148	29.7	7,083	30.0
Total	24,452	100.0%	24,064	100.0%	23,624	100.0%

(1) Including the head office, business departments dealing with discounted bills and large customers, respectively, and the credit card center.

We have a significant proportion of outlets located in the County Areas. As of December 31, 2009, we had 12,737 branch outlets located in the County Areas, representing 53.9% of our total branch outlets.

We are in the process of implementing a significant outlet upgrade project. This initiative includes the expansion of spaces for key outlets, the allocation of separate space to different service functions, the enhancement of our customer service capabilities and the increase of our operational efficiency. From 2007 to 2009, we increased the number of outlets between 300 square meters and 500 square meters from 2,755 to 3,718 and also increased the number of outlets larger than 500 square meters from 1,509 to 1,888.

As of December 31, 2009, the outlets that had over five separated function areas, including cash services, non-cash services, self-services and VIP services, increased to 5,817, accounting for 24.6% of our total outlets. As of the same date, there were 11,189 outlets with established separate self-service areas, accounting for 47.4% of our total outlets, and 7,577 outlets with established VIP services areas, accounting for 32.1% of our total outlets.

Electronic Banking

We provide our customers with secure, fast, flexible and efficient electronic banking services, including account management, cash deposit and withdrawal, money transfer and settlement, fee payment and investment and wealth management. We offer these services 24 hours a day, seven days a week through Internet banking, phone banking, mobile phone banking and self-service banking.

As of December 31, 2009, we had over 70 million electronic banking customers, representing a significant increase from approximately 30 million as of December 31, 2008. In 2009, we completed approximately 10.5 billion electronic transactions, accounting for 49.8% of our total number of transactions. In 2009, our electronic banking service fees and commissions totaled RMB1.2 billion. From 2007 to 2009, the CAGR of the fees and commissions from our electronic banking services was

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84.2%. In 2009, 2008 and 2007, our “Golden E” (“金e順”) electronic banking brand was awarded the “Electronic Finance Brand Satisfactory to Customers” by *the China E-Commerce Association*.

Internet Banking

Our Internet banking platform consists of both retail Internet banking and corporate Internet banking systems. Our retail Internet banking products and services include retail account management, money transfer and remittance, fee payment, investment and wealth management, credit card, retail loans and online shopping.

Our corporate Internet banking products and services include account management, money transfer and remittance, group treasury services, loans, foreign currency business, investment and treasury services and cash management.

As of December 31, 2009, we had 22.56 million Internet banking customers, including registered retail customers of 22.07 million, representing a CAGR of 108.6% from the end of 2007 to 2009, and we had registered corporate customers of 0.49 million, representing a CAGR of 53.6% for the period from the end of 2007 to 2009. In 2009, the total transaction volume for our Internet Banking was RMB37.3 trillion. In 2008, our Internet banking business received “the Award of Best Business Development among National Commercial Banks” (“全國商業銀行最佳業務拓展獎”) from the *China Financial Certification Centre*.

Phone Banking

We offer phone banking services through our customer service number “95599”, which can be accessed throughout China. Our phone banking service includes account management, information inquiry, money transfer and settlement, bill payment, investment and wealth management and retail loans. As of December 31, 2009, we had 17.32 million phone banking customers, comprising 16.92 million retail customers and 0.41 million corporate customers. In 2009, the total transaction volume for our phone banking business was RMB296.1 billion.

Mobile Phone Banking

Our mobile phone banking service was officially launched nationwide in April 2008, providing services such as account inquiry, money transfer, fee payment and credit card repayment. As of December 31, 2009, we had 3.01 million retail customers of our mobile phone banking business. In 2009, the total transaction volume for our mobile phone banking business was RMB441 million.

We provide short messaging services (SMS) to our contracted customers, including sending short messages relating to bank account transactions, customer care and safety verification. As of December 31, 2009, we had 27.87 million customers contracted for our SMS. In 2009, we sent a total number of 1.3 billion short messages to our contracted customers.

Self-service Banking

As of December 31, 2009, we had 54,688 self-service terminals, including 41,011 ATMs, the largest number of ATMs among the Large Commercial Banks. We had 9,151 self-service banking centers which operate 24 hours a day, seven days a week, including 915 self-service banking centers that are located away from our branch outlets and 1.37 million money transfer telephones to provide

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services. In 2009, we had 4.3 billion self-service banking transactions, with a total transaction volume of RMB8.7 trillion.

E-Commerce

We have a leading E-Commerce payment platform. Our electronic payment product line includes B2C, B2B, credit payment platforms, and has formed an E-Commerce model to sell funds directly. In 2009, we had 237 million E-Commerce transactions, with a total transaction volume of RMB107.3 billion.

In addition, we also provide home banking service to meet our customers' daily financial service requirements, including primarily financial information inquiry, account balance inquiry, money transfer and remittance, bill payment, funds trading, third-party depository, lottery purchase and TV shopping.

INFORMATION TECHNOLOGY

Information technology is at the core of our competitiveness. We focus on the development of our information technology capabilities and have established an Information Technology Development Committee under our senior management. We have also developed an IT development decision-making system to meet our operational needs as well as the IT management system and capabilities to provide comprehensive support to our business operations.

We developed a centralized computer network system in 2006 which, through the Shanghai data center, covers all of our domestic branch outlets except a small number of branch outlets in the Tibet Autonomous Region and links approximately 170,000 teller terminals throughout China. Only a small number of branch outlets located in the Tibet Autonomous Region have not been linked to the central network system due to a number of constraints including the lack of sufficient power and telecommunication infrastructure at these remote locations. Transactions at these branch outlets, typically small in volume, are manually recorded and then the financial accounts of these branch outlets are entered into the system on a monthly basis.

Information System

Our information system covers all aspects of our business. It consists of six application systems, including our core banking system, front office application system, channel application system, internal management system, marketing analysis system and office automation system.

Core banking system. Agricultural Bank of China's Integrated Banking System (ABIS) is our core banking system, centrally linking and managing substantially all of our branch outlets' network. Our ABIS supports our accounting function, centralized customer information management and our other basic services such as loans, deposits and settlement. In particular, our cash management system for our corporate customers has been widely used by approximately 1,300 group customers, which included 35% of the Top 500 Chinese Enterprises and 55% of the Top 100 Chinese Enterprises.

Front office application system. Our front office application system is anchored on our Application Integrated Preconsole System (AIPS), financial services platform named "TULIP," investment platform, Bank International Business System (BIBS) and other IT application platforms and supports our derivatives, fee- and commission-based and localized businesses, such as distribution

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of funds and bonds, third-party depository, treasury, custody and other emerging lines of business. In addition, through our front office application system, we have developed a banking service platform to support our business growth and product development and integrate our various functions such as management, research and development, operation, maintenance and statistical analysis.

Channel application system. Our channel application system forms the basis of our Advanced Client Browser System (ACBS), Internet banking, customer service system, telephone banking and mobile phone banking platforms and provides comprehensive support to our various banking service channels and banking services to our customers for 24 hours a day, 7 days a week. We rely on the advanced “.Net” platform and have developed our proprietary Internet banking system. We have established a 95599 telephone banking system and an IT system for our three customer service centers in Tianjin, Chengdu and Shanghai.

Internal management system. Our internal management system includes credit management, financial management and assets and liabilities management. It is capable of meeting our needs relating to risk control, internal management, decision-making analysis and information disclosure.

Our credit management system supports the routine processing, evaluation and approval of loans, post-disbursement management, risk alert, loan classifications, loan and customer information administration as well as data-mining.

Our financial management information system supports cost management, financial budgets, financial settlements and performance evaluations.

Our assets and liabilities management information system provides technological support to our bank-wide assets and liabilities management and capital management.

Marketing analysis system. Our customer relationship management system provides market analysis to support our marketing efforts. This system allows us to manage our individual customers and group customers by performing market segmentation and customer ranking analysis, retrieving information on customer defaults and conducting marketing performance evaluations.

Office automation system. Our office automation system includes an e-mail system and a documentation system. The e-mail system allows internal and external communication by our employees. The documentation system allows certain workflows to be automated and completed electronically. The office automation system enhances our operating efficiency by increasing communication efficiency and enabling long-term record-keeping.

IT Risk Management

Our IT risk management is coordinated by an operational risk management committee, with responsibilities allocated to the information technology department, risk management department, audit office and internal compliance department. The scope of our IT risk management also covers security, personnel, network, research and development, operation and maintenance, emergency response and outsourcing.

We have adopted IT safety security measures, including firewalls, transmission encryption, intrusion detection and centralized authentication. Our Shanghai branch obtained the information

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safety administration international certification (ISO27001), which evidenced the enhanced safety of our IT system.

In addition, we have established a dedicated disaster recovery management unit and constructed a comprehensive disaster recovery management system to protect our data center, tier-1 branches and tier-2 branches. Our core production system is located at the Shanghai data center, with the disaster recovery testing center at Beijing serving as a disaster recovery function for the core production system and core operating data. Our disaster recovery system enables our branches to link smoothly to our Beijing disaster recovery testing center if a disaster occurs at the Shanghai data center.

Information Technology Research and Operational Ability

Software research and development capability. Our software research and development center located at our head office is responsible for the implementation of major IT projects and the research and development of IT software, and has the capability to carry out demand analysis, process design, project implementation and promotion for large-scale projects. We have managed to continue streamlining our software development procedures, improving IT product quality and enhancing our IT risk management. Our software research and development center obtained the level-3 CMMI certification at the end of 2008.

Production and operation capability. Our data center in Shanghai is responsible for the support of our business operations and production of our management information, technology and business security, production data management, trading supervision and back-end processing for our overall operation and data administration. In 2009, the available rate of our data production system reached 99.9%. Our disaster recovery testing center in Beijing provides long-distance backup and emergency recovery for the core operational data in our Shanghai data center. We currently plan to establish a third data center in northern China. In May 2009, our data center in Shanghai obtained the ISO20000 IT service management system certification by an international authoritative certification entity.

IT Planning and Blueprint

In 2008, in order to adapt to changing requirements of corporate governance and overall risk management, we launched a new core banking system construction project, which will take three to five years to complete. We plan to upgrade the current system and optimize the application structure, basic infrastructure, data structure and IT governance structure. The construction of the new core banking system can support flexible product customization, promote innovation and increase the speed of meeting our business demands.

CAPITAL MANAGEMENT

Pursuant to regulations issued by the CBRC, including the New Capital Adequacy Regulations and the Notice on Improving the Mechanism for Capital Replenishment of Commercial Banks (關於完善商業銀行資本補充機制的通知), we have developed our capital plans for 2010 to 2012 to enhance and strengthen our capital management and ensure our capital adequacy. On June 2, 2010, these plans were approved at our board meeting and the extraordinary general meeting of our shareholders.

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Key Principles of Our Capital Management

- Continue to satisfy the regulatory requirements, maintain a reasonable capital level, and align our capital adequacy level with the maximization of shareholders' value;
- Continue to refine our economic capital-based value management system, optimize our asset mix, reasonably allocate economic capital, cover all types of risks and ensure a sustainable business growth; and
- Utilize various capital instruments, refine our capital base and structure, enhance capital quality and reduce capital costs.

Targets for Our Capital Adequacy Ratio Management

We have developed our capital adequacy ratio targets under the general principles of our capital management and based on an analysis of the macroeconomic and financial environment, various regulatory requirements, our business strategy and risk preferences. Assuming that, among other things, there will be no material deterioration in the economic and financial environment, our core capital adequacy ratio and capital adequacy ratio targets are no less than 8.5% and 11.5%, respectively, from 2010 to 2012.

Capital Enhancement Mechanism

Our priority approach to enhance our capital base will be through retention of profits. We may also enhance our capital base through various external alternatives, including, but not limited to, issuances of subordinated bonds, convertible bonds or hybrid capital bonds, conducting rights offerings or private placements, and certain other alternatives acknowledged by the CBRC.

Capital Management Measures

- *Strengthen Profitability and Improve Internal Capital Generation Capability.* We plan to enhance our profitability through various measures including accelerating business operations transformation, promoting revenue diversification and increasing operating efficiencies. In addition, we seek to strengthen internal capital generation capability through setting a reasonable dividend payout ratio.
- *Explore Capital Enhancement Tools and Expand Capital Enhancement Channels.* We seek to utilize the various types of tools and channels under current regulatory framework, and continue to explore new capital enhancement tools and expand capital enhancement channels.
- *Refine Capital Control Mechanism and Enhance Capital Allocation Efficiency.* We seek to strengthen capital budgeting management, increase our focus on performance evaluation based on economic capital metrics such as Economic Value Added ("EVA") and Risk-adjusted Return on Economic Capital ("RAROC"), promote awareness of capital constraints and control the growth of risk-weighted assets through economic capital management. We also plan to refine economic capital allocation management, guide the adjustment of our business and asset mix, prioritize the development of business that provides higher overall return and requires lower capital, in order to reduce capital consumption.

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- *Enhance Risk Management Capability and Establish Capital Adequacy Assessment Procedures.* We seek to establish and continue to refine our capital adequacy assessment procedures, which form an important component of our internal management and decision-making. We plan to accelerate our utilization of quantitative risk management measurement techniques, refine economic capital measurement, ensure adequate capital to be held against our major risk exposures and commensurate with our risk management capabilities.
- *Strengthen Capital Planning Management and Maintain Adequate Capital Base.* Based on changes in the macroeconomic and regulatory environment, as well as the progress of our implementation of Basel II and our business development needs, we plan to actively adjust our capital planning to ensure that the size of our capital base is commensurate with the future growth of our business and our risk exposure.

COMPETITION

We face significant competition in our principal areas of business from other commercial banks and other financial institutions in China. We currently compete primarily with the Large Commercial Banks and Other National Commercial Banks. We also face increasing competition from other financial institutions, including city commercial banks and foreign banks operating in China. Our competition with other commercial banks and financial institutions in China primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, reach of distribution network and brand recognition as well as information technology capabilities.

In the County Areas, our competitors vary across geographical regions as a result of the differences among regions in terms of economic development and maturity of the financial market. In addition to other Large Commercial Banks, Other National Commercial Banks, city commercial banks and foreign-invested bank operating in China, we primarily compete with local rural cooperatives, rural commercial banks, Postal Savings Bank of China and other agriculture-related financial institutions in the County Areas. With the easing of regulatory restrictions on access to the County Area banking market, an increasing number of township banks, loan companies, rural mutual cooperatives and other new types of rural financial institutions have been established in the County Areas. In addition, various financial institutions have strengthened their penetration in the County Area banking market. As a result, we face increasingly intense competition in the County Areas.

In addition, we face competition from non-banking institutions such as securities firms and insurance companies in providing financing services to our customers.

Our competition with foreign-invested financial institutions will likely intensify in the future. In 2006, pursuant to its WTO commitment, the PRC government eliminated measures restricting the geographic presence, customer base and operational licenses of foreign-invested banks operating in China. In addition, China's Closer Economic Partnership Arrangement with Hong Kong and Macau allows smaller banks from those jurisdictions to operate in the PRC, which has also increased competition in the PRC banking industry.

See "Risk Factors—Risks Relating to the Banking Industry in China—We face intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels" and "Financial Information—General Factors Affecting Our Results of Operations—The Competitive Landscape in the PRC Banking Industry."

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In response to the competitive environment, we intend to continue to implement our strategies to differentiate us from our competitors and to enable us to compete effectively in the PRC commercial banking industry.

The table below sets forth our market shares in RMB- and foreign currency-denominated deposits and loans:

	At December 31,		
	2007	2008	2009
	(in percentages)		
RMB-denominated deposits	13.4	12.9	12.4
RMB-denominated loans	12.9	10.0	10.0
Foreign currency-denominated deposits	6.4	5.6	6.5
Foreign currency-denominated loans	5.3	4.7	6.0

EMPLOYEES

We had 441,144 employees as of December 31, 2009. As of December 31, 2008 and 2007, we had 441,883 and 447,519 employees, respectively. The number of our employees as of December 31, 2009 includes 74 employees at our domestic subsidiaries and 240 employees at our overseas branches, subsidiaries and representative offices.

The following table sets forth the total number of our employees by function as of December 31, 2009.

	As of December 31, 2009	
	Number	% of total
Management	13,723	3.1%
Corporate banking	60,487	13.7
Retail banking	178,921	40.6
Treasury operations	3,072	0.7
Finance and accounting	69,455	15.7
Risk management, internal control, and legal	41,939	9.5
Information technology	11,795	2.7
Others ⁽¹⁾	61,752	14.0
Total	441,144	100.0%

(1) Consist primarily of supporting functions.

The following table sets forth the total number of our employees by age as of December 31, 2009.

	As of December 31, 2009	
	Number	% of total
Under 31	49,489	11.2%
31 to 40	173,234	39.3
41 to 50	189,540	43.0
over 50	28,881	6.5
Total	441,144	100.0%

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The following table sets forth the total number of our employees by education level as of December 31, 2009.

	<u>As of December 31, 2009</u>	
	<u>Number</u>	<u>% of total</u>
Master's degree and above	8,329	1.9%
Bachelor's degree	122,191	27.7
Associate degree and vocational schools	172,524	39.1
Others	138,100	31.3
Total	<u>441,144</u>	<u>100.0%</u>

We contribute to our employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations.

We have established a performance-based compensation system whereby an employee's compensation is determined based on his position and performance review.

We provide training programs to our employees to improve their professional competence and skills.

Our training programs mainly include:

- management training programs for senior management of our head office, tier-1 branches and tier-2 branches;
- professional training programs for professionals in areas such as investment and asset management, risk management, financial accounting, product development, legal and compliance and information technology;
- overseas training programs for employees to gain exposure to international practice; and
- technical training programs for skilled employees.

We have also been developing our job qualification system whereby we will define the required qualifications for each position throughout our operational processes and arrange respective trainings. Our labor union represents the interests of the employees and works closely with our management on labor-related issues. We have not experienced any strikes or other material labor activities that have interfered with our operations, and we believe that the relationship between our management and the labor union has been good.

In addition to employees, we had also engaged 38,954 contractors through third party human resources agencies as of December 31, 2009. These contractors are not our employees and generally hold non-key positions with us, such as bank tellers, customer service officers, security guards and cleaners. We do not enter into employment agreements with these contractors directly. The relevant branch outlets that engage these contractors have entered into employment contracting agreements with third party human resources agencies. In accordance with the employment contracting agreements, we have the power to make the final decision on the selection of contractors and have the right to reject contractors designated by third party human resources agencies who do not meet our recruitment criteria and job requirements. According to the legal opinion of our PRC legal advisors, DeHeng Law Offices, we do not have obligations to make the social security contributions in relation to these contractors under PRC laws. However, pursuant to the employment contracting agreements,

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we make salary payments, social security contributions and other related payments for the contractors engaged by us to the third party human resources agencies. The third party human resources agencies shall handle the payments of salary to the contractors and of social security contributions to relevant governmental entities for the contractors. If the third party human resources agencies fail to remunerate the contractors, we may also be jointly liable for claims brought by the contractors in accordance with PRC laws. However, we can seek indemnification from the third party human resources agencies under the employment contracting agreements.

PROPERTIES

We are headquartered in Beijing, PRC. At March 31, 2010, we held 37,619 properties and leased 8,170 properties in the PRC, Hong Kong and overseas.

Owned Properties

At March 31, 2010, we owned 37,564 properties with an aggregate gross floor area of approximately 30,448,180 square meters in the PRC. Among the 37,564 properties, we have obtained title certificates for 35,192 properties, representing an aggregate gross floor area of approximately 27,995,294 square meters. There are 625 properties representing an aggregate gross floor area of approximately 748,782 square meters with building ownership certificates which are located on land with allocated land use rights certificates or with approval for state-capital-injection land use rights. We do not have the relevant title certificates for 1,747 properties with an aggregate gross floor area of approximately 1,704,104 square meters due to various title defects or for other reasons.

In addition, at March 31, 2010, we owned 55 properties outside the PRC with an aggregate gross floor area of approximately 9,057 square meters.

Properties under Construction and Properties to be Acquired

At March 31, 2010, we had 278 properties under construction, which we estimate will have an aggregate gross floor area of approximately 807,133 square meters upon completion. We have not obtained the relevant proper land use rights certificates and/or construction permits for 132 of these properties with an estimated aggregate gross floor area upon completion of approximately 497,211 square meters. At March 31, 2010, we had entered into contracts to purchase 374 properties with an aggregate gross floor area of approximately 684,696 square meters.

Leased Properties

At March 31, 2010, we leased 8,160 properties in the PRC with an aggregate lettable area of approximately 2,171,146 square meters and 10 properties outside the PRC with an aggregate lettable area of approximately 2,636 square meters.

For the 8,160 leased properties in the PRC, according to the opinion given by our PRC legal advisors, the relevant lessors have provided title certificates or consent from the property owners to lease 3,399 properties, representing a total lettable area of approximately 1,024,024 square meters. We have not been provided with the relevant title ownership certificates or consent from the owners for the leasing of 4,761 properties, representing a total lettable area of approximately 1,147,122 square meters. Nevertheless, we have obtained confirmation letters of 2,313 properties, representing an aggregate

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lettable area of approximately 582,318 square meters from these lessors which undertake to compensate us for all of our losses arising from defective legal titles.

Property Titles

For the 37,564 properties we hold and occupy in the PRC, we have obtained title certificates for 35,192 properties, representing an aggregate gross floor area of approximately 27,995,294 square meters. There are 625 properties representing an aggregate gross floor area of approximately 748,782 square meters with building ownership certificates which are located on land with allocated land use rights certificates or with approval for state-capital-injection land use rights. For the remaining 1,747 properties with an aggregate gross floor area of approximately 1,704,104 square meters, we have not obtained title certificates. We are in the process of applying for the relevant land use rights and building ownership certificates that we do not yet hold, and we plan to cooperate closely with the local land and property management authorities to expedite such applications and obtain the relevant valid title certificates as soon as practicable. We have been unable to obtain certain of these title certificates due to various title defects or for other reasons. While there may be legal impediments to our obtaining certain of these title certificates as a result of these title defects, the aggregate gross floor area of these properties with defective titles is immaterial comparing to all of the properties we own. We believe that since the relevant properties are situated in different provinces in the PRC, the risk of losing the ability to use all of such properties at any one time is comparatively low. We also believe that we will be able to obtain replacements in nearby locations, and accordingly, it is not expected that any relocation will have any material adverse impact on the operations and financial position of the Group as a whole.

For the 8,160 leased properties in the PRC, the relevant lessors have not provided valid title certificates or consent to lease 4,761 properties, representing an aggregate lettable area of approximately 1,147,122 square meters, which are mainly served for commercial uses including outlets, offices and ATM. As the owner of the properties, the lessors are responsible for applying relevant valid title certificates or providing us the consent to lease properties. In respect of this, we have pro-actively procured these lessors to apply for the relevant valid title certificates or provide us the consent to lease properties. Among these leased properties with defective legal title, the lessors of 2,313 leased properties with an aggregate lettable area of approximately 582,318 square meters have provided confirmation letters to undertake to compensate us for losses arising from their defective legal title. For the remaining 2,448 properties without such confirmation letters, as advised by our PRC legal advisors, we will have the right to seek compensation from the lessors pursuant to the relevant lease agreements. We are of the view that most of these leased properties occupied can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on our operations.

Due to various title defects or for other reasons, we cannot obtain title certificates for some of these properties. For title defects that we cannot cure, we believe that the lack of such title certificates and/or the existence of such title defects will not have a material adverse effect on our business, financial condition and results of operations, as the relevant properties represent a minor portion of the total value of our properties. Our directors are of the view that the defective properties individually and collectively are not crucial to our operations. See “Risk Factors—Risks Relating to Our Business—We do not possess the relevant land use right certificates or building ownership certificates for some of our properties, and we may be required to seek alternative premises for some of our offices or business sites due to our landlords’ lack of relevant title certificates.”

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Property Valuation

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued the property interests that we owned at March 31, 2010 with commercial value of RMB96,009 million. The text of the valuation letter, a summary of values and the valuation certificates issued by Jones Lang LaSalle Sallmanns Limited for this prospectus are set out in Appendix VI.

No commercial value is attributed to any leased properties, properties to be acquired, owned properties and properties under construction without proper title certificates.

Exemption/Waiver

Regarding the format and content of the valuation report, owing to the substantial number of properties we own (37,619 in total), lease (8,170 in total) and buildings under construction (278 in total), we have applied for and obtained a waiver from the Hong Kong Stock Exchange from strict compliance with Rule 5.01, Rule 5.06, Rule 19A.27(4) and Paragraph 3(a) of Practice Note 16 of the Listing Rules on the grounds that (i) it would be unduly burdensome to list all of the properties and show their particulars and values individually in this prospectus and the inclusion of such detailed information would be irrelevant to potential investors in a commercial bank; and (ii) it would be unduly burdensome to prepare an English translation of the report, as substantially all of the properties are located in the PRC and consequently the underlying valuation and title information is in Chinese.

We have applied for and obtained an exemption from the SFC from strict compliance with paragraph 34(2) of part II of the Third Schedule to the Hong Kong Companies Ordinance on the ground that it would be unduly burdensome to list all of the properties and show their particulars and values individually in this prospectus and the inclusion of such detailed information would be irrelevant to potential investors in a commercial bank.

Our Directors confirmed that the certificate of exemption from the SFC and waiver from the Hong Kong Stock Exchange would not prejudice the interest of potential investors. The exemption has been granted by the SFC under section 342A(1) of the Hong Kong Companies Ordinance, on the conditions that (i) the full valuation report complying with all the requirements of paragraph 34 of Part II of the Third Schedule to the Hong Kong Companies Ordinance, which will be prepared in the Chinese language only, will be made available for public inspection; (ii) a summary valuation report of all of our property interests prepared on the basis of the full valuation report is included in Appendix VI to this prospectus; and (iii) this prospectus shall set out particulars of this exemption.

The waiver has been granted by the Hong Kong Stock Exchange on the conditions that (i) the full valuation report complying with all the requirements of paragraph 34 of Part II of the Third Schedule to the Hong Kong Companies Ordinance, which will be prepared in the Chinese language only, will be made available for public inspection; (ii) a summary valuation report of all of our property interests prepared on the basis of the full valuation report is included in Appendix VI to this prospectus; and (iii) we obtain a certificate of exemption from the SFC in relation to compliance with relevant requirements under the Hong Kong Companies Ordinance.

See “Appendix X—Document Delivered to the Registrar of Companies and Available for Inspection” for the time and place that the full valuation report will be available for public inspection.


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LAND USE RIGHTS AND MAJOR INTANGIBLE ASSETS

Our Land Use Rights

As of March 31, 2010, the carrying value of our land use rights amounted to RMB24.9 billion.

Our Major Intangible Assets

We own various intellectual property rights including trademarks, patents, domain names, copyrights and non-patented technology. We conduct business under the “中國農業銀行,” “Agricultural Bank of China,” “ABC” and “” brand names and logos.

Trademarks

As of March 31, 2010, we held 179 registered trademarks and 124 registration applications which have been accepted for consideration in the PRC. We also held 12 registered trademarks and 23 registration applications which have been accepted for consideration outside the PRC.

Patents

As of March 31, 2010, we had two patents and 27 patent applications which have been accepted for consideration in the PRC.

Copyrights

As of March 31, 2010, we had 50 copyrights and copyright registration certificates in the PRC.

Domain Names

As of March 31, 2010, we had registered ten domain names in the PRC.

Non-patented Technology

As of March 31, 2010, we had 621 non-patented technology in the PRC.

Value of Our Land Use Rights and Intangible Assets

Land use rights and intangible assets are reflected on the balance sheet as cost or revaluation less accumulated amortization and allowance for impairment losses. The cost or revaluation amount of land use rights and intangible assets is amortized using a straight-line method.

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At December 31, 2009, 2008 and 2007, the cost value, accumulated amortization, allowance for impairment losses and carrying value of our land use rights and intangible assets are set forth in the table below:

		At December 31,		
		2007	2008	2009
		(in millions of RMB)		
Software	Cost value	2,490	1,874	2,348
	Accumulated amortization	(1,190)	(417)	(786)
	Allowance for impairment losses	—	(28)	(29)
	Carrying value	<u>1,300</u>	<u>1,429</u>	<u>1,533</u>
Others	Cost value	66	69	71
	Accumulated amortization	(39)	(12)	(24)
	Allowance for impairment losses	—	—	—
	Carrying value	<u>27</u>	<u>57</u>	<u>47</u>
Subtotal	Cost value	2,556	1,943	2,419
	Accumulated amortization	(1,229)	(429)	(810)
	Allowance for impairment losses	—	(28)	(29)
	Carrying value	<u>1,327</u>	<u>1,486</u>	<u>1,580</u>
Land Use Rights	Cost value	1,116	26,272	26,552
	Accumulated amortization	(328)	(733)	(1,443)
	Allowance for impairment losses	—	(25)	(47)
	Carrying value	<u>788</u>	<u>25,514</u>	<u>25,062</u>
Total	Cost value	3,672	28,215	28,971
	Accumulated amortization	(1,557)	(1,162)	(2,253)
	Allowance for impairment losses	—	(53)	(76)
	Carrying value	<u>2,115</u>	<u>27,000</u>	<u>26,642</u>

LEGAL AND REGULATORY

Licensing Requirements

As of the Latest Practicable Date, we had obtained the financial operating licenses required for conducting our current businesses.

Legal Proceedings

We are involved in certain legal proceedings in the ordinary course of our business. Most of these proceedings involve enforcement claims initiated by us to recover payments on our non-performing loans. The legal proceedings against us include actions relating to customer disputes and claims brought by our counterparties on contracts related to our banking operations.

As of December 31, 2009, we had 34 pending litigation and arbitration cases each with a claim value of over RMB100 million, amounting to approximately RMB6,561 million in aggregate. Out of these 34 cases, we or our branch outlets were plaintiffs in 23 cases with an aggregate amount of RMB5,097 million; and we or our branch outlets were defendants in 11 cases with an aggregate amount of RMB1,464 million. We believe that we have made adequate provisions with respect to current and pending proceedings against us. At December 31, 2009, our litigation provisions amounted

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to RMB2,974 million. See Note VI.36(3) to our consolidated financial statements in the Accountants' Report in Appendix I to this prospectus. We do not expect any of our current and pending legal or arbitration proceedings to have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations, even if they are determined against us.

As of the Latest Practicable Date, none of our directors, supervisors and senior management were involved in any material litigation, arbitration or administrative proceedings.

Regulatory Reviews and Proceedings

We are subject to inspections and examinations by the relevant PRC regulatory authorities, including the PBOC, CBRC, MOF, CSRC, CIRC, SAIC, SAFE, NAO and SAT, and their respective local offices. These audits and examinations have previously resulted in findings of incidents of non-compliance and the incurrence of certain penalties. Although these incidents and penalties did not have any material adverse effect on our business, financial condition and result of operations, we have implemented improvement and remedial measures to prevent the reoccurrence of such incidents. Our directors believe that, save as disclosed in this prospectus, there were no other material breaches and material incidents of regulatory non-compliance during the Track Record Period.

Our overseas branches, representative offices and subsidiaries are subject to local laws and regulations, as well as the regulatory oversight of relevant authorities in their respective jurisdictions. As of the Latest Practicable Date, they were not in breach of respective local legal and regulatory requirements and follow ordinary and routine supervisory procedures. During the Track Record Period, our overseas branches, representative offices and subsidiaries were not subject to any material investigations or penalties in their respective jurisdictions.

Administrative Proceedings

Certain regulatory inspections and examinations have resulted in our being subject to fines and penalties as a result of our non-compliance with regulatory requirements. From January 1, 2007 to December 31, 2009, we were subject to a total of 117 fines and penalties imposed by the PRC regulatory authorities (other than the tax authorities) for an aggregate amount of approximately RMB26.66 million for fines and penalties over RMB100,000 each. Of the 117 fines and penalties, 43, 37, and 37 fines and penalties were imposed on us for 2009, 2008 and 2007, respectively. The amount of such fines and penalties were approximately RMB10.48 million, RMB7.03 million and RMB9.14 million for 2009, 2008 and 2007, respectively. We were also subject to a total of 32 fines and penalties imposed by the PRC tax authorities in an aggregate amount of RMB28.76 million for fines and penalties each over RMB100,000, which had been paid in full as of the Latest Practicable Date. In addition to monetary fines and penalties imposed, we also received warnings, official reprimands or rectification directives from the relevant PRC regulatory authorities in respect of a small number of the above mentioned violations. Other than the above, there was no other sanction or additional requirement arising from administrative proceedings imposed on us by the PRC regulatory authorities during the Track Record Period. Among administrative fines and penalties each over RMB100,000:

- 30 fines and penalties totaling RMB5.36 million were imposed by the PBOC for, among others, failure to report certain large and suspicious transactions;
- 29 fines and penalties totaling RMB7.56 million were imposed by the CBRC for, among others, failure to comply with certain prescribed internal control standards;

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- 34 fines and penalties totaling RMB6.91 million were imposed by the SAFE for, among others, non-compliance with foreign exchange settlement regulations;
- six fines and penalties totaling RMB1.31 million were imposed by the SAIC for, among others, concluding business exceeding our prescribed business scope;
- 18 fines and penalties totaling RMB5.52 million were imposed by other administrative agencies, including the departments responsible for land and resources administration and the department responsible for construction planning administration, for, among others, failure to obtain approvals in respect of altering the land use purposes or delays in the registration of our property titles; and
- 32 fines and penalties totaling RMB28.76 million (including late payment penalties) were imposed by the PRC tax authorities for, among others, failure to report all tax income, non-compliance in the withholding of personal income tax primarily due to certain of our accounting staff's misunderstanding of the statutory scope of taxable income, and improperly obtaining expense reimbursement.

These penalties did not, individually or in aggregate, have a material adverse effect on our business, financial condition or results of operations. We have taken, and will continue to take, the following key steps and measures to rectify the issues identified by the PRC regulatory authorities: (i) for issues with clear solutions, we promptly rectify such issues in accordance with recommendations from the PRC regulatory authorities and our policies and procedures; (ii) for issues arising from deficiencies in our policies and procedures, we rectify and improve the relevant policies and procedures in order to further streamline our operations; (iii) for issues arising from deficiencies in the implementation of policies, we hold the responsible employees accountable and issue relevant internal warnings and instructions; (iv) in relation to branch outlets which were not inspected by the PRC regulatory authorities, we consider issues identified by the PRC regulatory authorities and carry out further investigations in order to eliminate similar operational risks and management weaknesses; and (v) to prevent recurrence of these issues, we provide additional training to our employees, adopt new measures for risk management and reform our internal control systems. Through the above measures, we believe that we have taken appropriate actions to rectify the identified deficiencies. In developing and implementing these measures, we consider relevant government policies as well as actual and anticipated regulatory developments and, to the extent practicable, work with the relevant regulatory authorities. The CBRC recognized in its 2009 regulatory report that our overall management capabilities had improved. For steps and measures relating to our remedial actions with respect to reviews conducted by the CBRC and the NAO, see “—Findings of Regulatory Examinations.” As of the Latest Practicable Date, we had paid substantially all of the fines and penalties according to the requirements of the PRC regulatory authorities.

Findings of Regulatory Examinations

Certain routine or *ad hoc* examinations or inspections conducted by the PRC regulatory authorities, although not resulting in fines or other penalties imposed on us, have revealed certain deficiencies or incidents of non-compliance in various areas of our business operations, risk management and internal control. The results of the principal examinations or inspections are summarized below.

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CBRC

The CBRC conducts routine and *ad hoc* inspections of our Bank, including on-site inspections of our head office, branches and sub-branches. Based on these inspections, the CBRC issues inspection reports setting forth its findings and recommendations.

From 2007 to 2009, the CBRC carried out routine inspections of our head office and some of our branches and sub-branches. During the same period, the CBRC also conducted *ad hoc* inspections of our internal control systems, bill acceptance business, loans to foreign-related companies, certain incremental loans and discounted bills. The main issues at certain of our branches and sub-branches identified by the CBRC through these inspections included lack of standardized business processes, deficiencies in security management, failure to follow standardized credit extension procedures, loan concentration risks, the need for improvement in post-disbursement monitoring, delays in the disposal of repossessed assets, and the need for improvement in internal audit and compliance management. The key recommendations made by the CBRC in its reports and our primary remedial measures adopted are set forth below.

Key recommendations	Our primary remedial measures
<ul style="list-style-type: none"> ● Strengthen credit risk management and improve asset quality 	<ul style="list-style-type: none"> ● Continue to improve our credit management policies and procedures, implement credit guidelines and industry-specific credit guidelines, adopt customer list-based management, refine the mix of our customer base and improve our credit risk management capabilities
<ul style="list-style-type: none"> ● Further corporate governance reform and improve internal control and management capabilities 	<ul style="list-style-type: none"> ● Increase our efforts to form a sound corporate governance structure, strengthen our Board of Directors' role in strategic decision-making and risk management, and refine our three-level internal control organizational framework consisting of the decision-making, execution as well as supervisory and evaluation levels
<ul style="list-style-type: none"> ● Improve capital enhancement mechanism and strengthen risk tolerance capability 	<ul style="list-style-type: none"> ● Proactively refine our capital structure, enhance capital base by introducing strategic investors and listing on stock exchanges and improve internal capital generation capabilities
<ul style="list-style-type: none"> ● Prepare for the implementation of Basel II and promote the establishment of a compliance program 	<ul style="list-style-type: none"> ● Accelerate the preparation for the implementation of Basel II, promote the application of quantitative risk measurement methodologies in our risk management process, further improve our compliance management system and strengthen our compliance management and employee compliance training
<ul style="list-style-type: none"> ● Improve the management of loans extended to government financing vehicles 	<ul style="list-style-type: none"> ● Enhance our control over the risks relating to loans to government financing vehicles, improve post-disbursement monitoring, establish stricter customer qualification requirements and enhance our management of loan drawdowns

As of the Latest Practicable Date, the CBRC did not require us to take further remedial measures, and had not conducted any further inspections on us following its inspection in 2009. We believe that the CBRC's findings described above did not reveal any material deficiencies in our

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business operations, internal audit, internal control and risk management functions, and have no material adverse effect on our financial condition and results of operations.

NAO

The NAO conducts audits of state-owned and state-controlled enterprises, including us, from time to time. During its most recent audit on us, the NAO audited the profit and loss and assets and liabilities of our head office and 11 branches in Heilongjiang, Jilin and other provinces for the year 2008. The NAO also identified certain operational deficiencies which occurred in recent years. The findings by the NAO did not have any material adverse effect on our financial condition and results of operations.

In the publicly available summary of its audit report, the NAO noted our progress in transitioning to a joint stock company and significant improvements in our asset quality and operational efficiency. However, the NAO also identified the following issues at certain of our branch outlets: (A) incidents of non-compliance involving an aggregate amount of RMB10.6 billion, including (i) non-compliance in extending loans of RMB4.8 billion (including lending to enterprises and projects that did not meet industry policies or our loan extension requirements, non-compliance in issuing bank guarantees, extending loans without specified purpose and extending loans that were used by the borrower to invest in the stock markets); (ii) non-compliance in issuing RMB4.8 billion of acceptance bills or discounted bills that were unrelated to any trade; (iii) non-compliance in conducting deposit-taking and settlement businesses involving an aggregate amount of RMB596 million such as certain of our employees improperly providing their personal accounts to customers to facilitate fund transfers; and (iv) non-compliance in booking revenues and expenses involving an aggregate amount of RMB332 million, which includes mainly the existence of off-balance sheet fixed assets and understatement of non-operating income; and (B) management deficiencies which subject certain of our businesses to risks, including (i) management deficiencies in the extension of loans to government financing vehicles; (ii) failure to disburse certain agricultural loans to the Sannong business; and (iii) deficiencies in management and risk control.

We take the issues raised by the NAO's audit seriously and have implemented relevant remedial measures. As of the Latest Practicable Date, we had remedied 90 out of the 96 of our identified operational deficiencies. In addressing the issues identified by the NAO, we strengthened our compliance culture, refined our management philosophies to further commercialize our operations, and strengthened our internal control, risk management and risk tolerance capabilities.

The operational deficiencies which are still being rectified include the non-compliance in extension of five loans. We disposed of some of these loans in our 2008 financial restructuring and have made provisions for the remaining non-compliant loans. The other outstanding operational deficiency involves an RMB64 million off-balance sheet asset relating to the non-compliance in construction of an office building by one of our tier-2 branches and which was not recorded as a fixed asset on our balance sheet. This tier-2 branch has since initiated remedial measures, including the verification of the property, obtaining the relevant property titles, organizing property valuations and audits and resolving relevant disputes.

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The key recommendations of the NAO audit and our primary remedial measures adopted are set forth below:

Key recommendations	Our primary remedial measures
<ul style="list-style-type: none"> ● Implement national macroeconomic policies, improve loan services to SMEs, increase support for agriculture, and implement national industry policies strictly ● Improve corporate governance structure, strengthen financial reform and innovation and enhance competitiveness and the quality of financial services ● Regulate operational activities, strengthen internal control and risk management in the course of financial innovation and improve risk tolerance capabilities 	<ul style="list-style-type: none"> ● Strengthen the management of designated units for loans to small businesses, refine the credit management system for loans to small businesses and introduce a one-stop approval process of loans to small businesses ● Establish a County Area banking division, grant the division relative management independence and strengthen the provision of pilot “Sannong-specific” financial services ● Establish credit limits for industries on a periodic basis based on changes to national industry policies, reduce loans to industries with high risks and optimize our loan mix ● Strengthen the Board structure, enhance the core role of the Board in corporate governance and policy decision-making, refine the policies in relation to our senior management and exercise the supervisory function of the Board of Supervisors ● Capitalize on the synergy between the Urban Areas and the County Areas, create an integrated business platform of the Urban Areas and the County Areas, clarify the differentiated development strategies, provide our customers in the Urban Areas and the County Areas with comprehensive, high-quality and efficient financial services, accelerate the implementation of business operation transformation, consolidate channels, products and system resources, implement market segmentation and customer segmentation strategies, constantly improve core competitiveness ● Accelerate the establishment of a comprehensive risk management system, implement customer list-based management taking into account industry-specific credit guidelines, allocate staffing dedicated to loan reviews, develop risk management tools such as risk limits management and the 12-grade loan classification system for corporate loans, promote the implementation of internal rating methodologies, and promote the appointment of on-site risk officers and risk managers ● Establish a dedicated internal control and compliance department, streamline the operational procedures for our core businesses and facilitate the preparation of compliance handbooks ● Move the audit function of our tier-1 branches to our head office and establish an independent internal audit system under our Board

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Reporting and Monitoring of Employee Non-compliance

We have established internal reporting procedures for reporting employee misconduct to ensure that all incidents of employee misconduct are reported to our head office in a timely manner. In addition, we are required to report and have in the past reported, to the CBRC, significant cases of employee misconduct. For material criminal cases and material incidents of employee non-compliance, we carry out a level-by-level, upwards reporting and consolidation process: all our levels must, within 24 hours, report the relevant information, level-by-level, to our head office. For incidents involving employee criminal misconduct, we promptly report such cases to the CBRC.

There were 54 unlawful incidents occurring and discovered during the Track Record Period, of which 16 incidents involved over RMB1 million each. In 2007, there were 35 incidents occurring and discovered, involving an aggregate amount of approximately RMB107 million, of which 13 incidents involved more than RMB1 million each. In 2008, there were 11 incidents occurring and discovered, involving an aggregate amount of approximately RMB11 million, of which two incidents involved more than RMB1 million each. In 2009, there were eight incidents occurring and discovered, involving an aggregate amount of approximately RMB46 million, of which one incident involved more than RMB1 million.

We believe that the number of incidents of reportable employee misconduct at our Bank has been relatively low in recent years primarily due to our efforts to enhance our internal control systems, promote employee accountability, and implement routine and *ad hoc* inspections bank-wide. None of our directors or the members of our senior management has been involved in any incident of employee misconduct.

During the Track Record Period, we had improved accountability in our internal management. We implemented centralized auditing, inspections and other measures to improve monitoring and inspection and we will continue to develop specialized management of non-compliance incidents and specialized management of commercial bribery incidents. We adopted measures including prioritizing the rectification and prevention of unlawful incidents and incidents of non-compliance. Within the Track Record Period, as a result of our efforts, the number of our cases decreased from 35 in 2007 to eight in 2009.

We have been advised by our PRC legal advisors, DeHeng Law Offices, that, based on our confirmation of the details and total number of the incidents of reportable employee misconduct, the total amount involved in the incidents of reportable employee misconduct and the details of corrective measures taken by us, neither the legality of the corporate existence of our Bank or our branch outlets has been affected, nor has any of the required approvals, permits, authorizations or filings necessary for our business operations been revoked as a result of these incidents of reportable employee misconduct. Furthermore, the amount of loss that may be attributable to these incidents constituted a relatively small fraction of our total assets. We have taken corrective measures, including, but not limited to, measures to rectify and prevent relevant misconduct and discipline employees engaged in misconduct. On the basis of the foregoing, our PRC legal advisors have confirmed that the reportable employee misconduct did not and will not, individually or collectively, have a material adverse effect on our business and results of operations.

Special Events

We have, from time to time, detected incidents of fraud and other misconduct committed by our employees, customers and other third parties. These incidents of fraud and misconduct have included corruption, bribery, embezzlement of funds, forgery of loan or other documentation, and violations of our internal procedures and guidelines in issuance of loans and credits and cancellation of redemption rights of collateral. Among the incidents adjudicated, our directors confirm that the most significant cases from January 1, 2007 to the Latest Practicable Date, based on the amount involved in the same category of cases, the seniority of the employees involved and the nature of the cases, are discussed below. In each of these cases, we have taken appropriate legal measures against the perpetrators and adopted corrective measures to address any operational or internal control-related deficiencies exposed by their misconduct. We believe that the financial losses and other adverse consequences of these incidents did not have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations. We will continue to focus on improving and strengthening our internal control and risk management functions with the goal of successfully preventing similar incidents from recurring in the future. For information regarding our operational reforms and a series of risk management and internal control initiatives, see “Our History, Restructuring and Operational Reform” and “Risk Management.”

Kuandian Incident

Between 2007 and 2008, Kuandian Shengxintiexuan Mining Co., Ltd. and its connected company, Kuandian Manchu Autonomous County CDPF Welfare Boron Powder Factory, had forged personal deposit notes and bank acceptance bills and defrauded our Kuandian branch in issuing loans of approximately RMB104 million. As of the Latest Practicable Date, several defendants involved in the fraud were convicted and sentenced by the People’s Court.

Handan Incident

Between 2006 and 2007, two of our former employees, who were employees of our Handan branch conspired to misappropriate approximately RMB51 million from the branch’s treasury. As of the Latest Practicable Date, the perpetrators were convicted and sentenced by the People’s Court.

Han Wenming Incident

Our former Tibet branch president, Mr. Han Wenming was convicted of abusing his position for personal gain and receiving bribes of approximately RMB4.3 million and US\$160,000 between 2001 and 2005. As of the Latest Practicable Date, Mr. Han was convicted and sentenced by the People’s Court.