
COUNTY AREA BANKING BUSINESS

Although there are a number of Large Commercial Banks listed on the HKSE, none of them has established a significant presence in China's County Areas. As a result, we believe the investors may not be familiar with China's County Area market in general and our County Area Banking Business in particular. In light of the substantial growth of China's County Area economy and the uniqueness of our County Area Banking Business, we provide an introduction to the environment, development, operation and financial condition of our County Area Banking Business in this section to facilitate your understanding. The financial and operating data of our County Area Banking Business have been consolidated into our financial and operating data as disclosed in the "Business," "Assets and Liabilities," "Financial Information" and "Recent Developments" sections. For definitions of "County Areas," "County Area Banking Business," "Sannong," "Sannong Banking Business" and "Urban Areas," please see "Definitions and Conventions."

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."

The County Area economy plays a significant role in China's national economy. The County Areas had a total population of 928 million as of the end of 2008, accounting for 69.8% of China's total population. In 2008, the total GDP attributable to the County Areas reached RMB15 trillion, accounting for 49.6% of China's total GDP. The County Area economy is a key component of China's new national economic development strategies which are to expand domestic consumption, increase urbanization and balance regional development, and the County Area economic development is expected to become a significant driver of China's long-term economic growth. As a result of that the growth of the County Area economy, the continuous improvement in the operating environment for the County Area Banking Business and a more balanced economic development between the Urban Areas and the County Areas, we believe the County Area banking market will continue to expand and provide China's banking industry with a significant growth opportunity.

As a primary provider and market leader of banking services in the County Areas with an unparalleled distribution network, leading operational scale, diverse and innovative product and service offerings, as well as decades of experience and expertise in the County Area banking market, we are well-positioned to capitalize on the future economic growth of the County Areas.

- We have the largest number of County Area branch outlets among the Large Commercial Banks, which cover 99.5% of all counties across China. Furthermore, the majority of our 12,737 branch outlets in the County Areas are located in economically more developed county centers and towns.
- We are well-positioned to expand our products and services provided in the Urban Areas to the County Areas and offer one-stop services to our customers in both Urban Areas and County Areas by leveraging our integrated information, capital and product platform covering both Urban Areas and County Areas and extensive nationwide branch outlets and electronic distribution network.
- We maintain a large customer base with a focus on mid- to high-end customer segments.
- We are the only Large Commercial Bank with an integrated and dedicated County Area banking division. Our comprehensive product portfolio, strong funding base and enhanced

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IT system enable us to meet the fast growing and increasingly sophisticated banking needs of our County Area customers.

- We have built a highly recognized County Area banking brand in China, which allows us to better maintain customer loyalty.
- We have been able to maintain strong growth in our County Area Banking Business, while at the same time improving the operational efficiency and risk management capabilities. The profit before tax generated by our County Area Banking Business increased from RMB9.4 billion in 2007 to RMB20.9 billion in 2009, representing a CAGR of 49.0% over this period.

STRATEGIC POSITION OF THE COUNTY AREA MARKET

Substantial Growth Potential of County Area Economy

Over the past decade, the County Area economy has achieved significant growth as the primary regions in China have undergone continued urbanization, industrialization and industry migration. Between 2001 and 2008, the nominal GDP of the County Areas increased at a CAGR of 16.8%, exceeding that of the nominal national GDP, which grew at a CAGR of 15.5% during the same period. We believe that the County Area economy will become increasingly significant to China's national economy as the County Area economy continuously benefits from factors such as China's rapid urbanization and industrialization, industry migration and supportive government policies.

The table below sets forth, for the periods indicated, the growth in the national GDP and the County Area GDP.

	2001	2002	2003	2004	2005	2006	2007	2008
(in billions of RMB, except percentages)								
County Area GDP	5,030.3	5,612.2	6,400.4	7,740.0	8,802.0	10,335.8	12,550.3	14,905.0
National GDP	10,965.5	12,033.3	13,582.3	15,987.8	18,321.7	21,192.4	25,730.6	30,067.0
% of County Area GDP in national GDP	45.9	46.6	47.1	48.4	48.0	48.8	48.8	49.6

Sources: NBSC for national GDP data; All China Marketing Research Co., Ltd. (one of the major data providers in China) for County Area GDP data; Although NBSC has adjusted the national GDP data based on its economic survey conducted in 2009, such adjusted data are not used herein for comparison purposes because the adjusted corresponding County Area data have not yet been made available

Rapid Urbanization

China has experienced rapid urbanization. China's urbanization rate increased to 45.7% in 2008 from 17.9% in 1978. An increasing number of people have been migrating to cities and towns in the County Areas and have become the major force for the Secondary Industries and Tertiary Industries. The United Nations forecasts that the urbanization rate in China is expected to reach 51.1% in 2015 and 58.6% in 2025. The PRC government's policy initiatives for easing residency restrictions for migrants from the rural areas into cities and towns are expected to further promote the ongoing urbanization process.

The table sets forth below China's urbanization rate during the periods indicated.

	1978	1985	1990	1995	2000	2005	2006	2007	2008
Urbanization Rate (%)	17.9	23.7	26.4	29.0	36.2	43.0	43.9	44.9	45.7

Source: China Statistical Yearbook 2009

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As China's urbanization continues, the resulting lifestyle changes have also led to growth in consumption and demand for housing, durable goods and other products in the County Areas. In addition, urbanization has been accompanied by increased infrastructure investment in the County Areas, which is expected to continue to be a significant driver for the County Area's future economic development. The table below sets forth, for the periods indicated, the increase in fixed asset investment in China's rural areas, which are contained in the County Areas, and consumption expenditure in rural households.

	2001	2002	2003	2004	2005	2006	2007	2008
Investments in fixed assets in rural areas (RMB in billions)	721.2	801.1	975.5	1,144.9	1,367.9	1,662.9	1,985.9	2,409.0
Average consumption expenditure per capita in rural households (RMB)	1,364	1,468	1,577	1,754	2,555	2,415	3,224	3,661

Source: NBSC

County Area Industry Structure Upgrade

With increasing farming machinery utilization, improved agricultural infrastructure, as well as improvements in agriculture production scalability, China's agricultural industrialization and modernization continue to accelerate and the productivity of the Primary Industries has also been improving steadily. However, the contribution of the Primary Industries, as a percentage to China's national economy, has been decreasing since the 1980s. In 2008, the percentage of the County Area GDP attributable to Primary Industries decreased to 17.7%, while the rest of the 82.3% was attributable to the Secondary Industries and Tertiary Industries, representing 8.7 percentage points increase from 2001. Non-farm labor in the entire rural population has been growing. In light of the higher marginal productivity of the Secondary Industries and Tertiary Industries as compared to the Primary Industries, we expect the ongoing shift in the County Area industry structure will continue to fuel the rapid growth of the County Area economy.

The table below sets forth the changes in the County Area industry structure for the periods indicated.

	2001	2002	2003	2004	2005	2006	2007	2008
(in billions of RMB, except percentages)								
County Area GDP	5,030.3	5,612.2	6,400.4	7,740.0	8,802.0	10,335.8	12,550.3	14,905.0
GDP from Primary Industries	1,328.9	1,396.5	1,452.5	1,722.7	1,884.9	2,022.6	2,320.8	2,633.0
% of County Area GDP	26.4	24.9	22.7	22.3	21.4	19.6	18.5	17.7
GDP from Secondary Industries	2,085.8	2,374.5	2,872.7	3,553.7	4,155.1	5,053.1	6,262.2	7,645.3
% of County Area GDP	41.5	42.3	44.9	45.9	47.2	48.9	49.9	51.3
GDP from Tertiary Industries	1,615.6	1,841.2	2,075.2	2,463.6	2,762.0	3,260.1	3,967.3	4,626.7
% of County Area GDP	32.1	32.8	32.4	31.8	31.4	31.5	31.6	31.0

Source: NBSC

The upgrade of industry structure has been accompanied by the migration of labor-intensive industries from the Urban Areas to the County Areas and the formation of County Area industrial centers. The emergence of County Area industrial centers has facilitated industrial capital formations and increases in fixed asset investments. We expect that ample labor supply and continued increases in fixed asset investments will promote the further growth of the County Area economy.

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Favorable State Policies

In recent years, the PRC government has undertaken a number of policy initiatives aiming to promote agricultural production, rural development and income growth for farmers, and these policy initiatives have played a significant role in promoting County Area economic growth. The government expenditure related to Sannong increased by 21.8% to RMB725.3 billion in 2009 from RMB595.6 billion in 2008, which in turn increased by 37.9% from 2007.

The PRC government continues to provide policy support for the growth of China's agricultural economy through, among others, agricultural subsidies, price support for certain agricultural products, agriculture tax exemption and increasing investment in agricultural modernization. The PRC government has also undertaken measures to improve rural infrastructure, support the development of rural public facilities, increase funding for mandatory education in rural areas and develop rural cooperative healthcare, social security and pension insurance systems. In addition, to promote farmers' income growth and improve rural consumption patterns, the PRC government has refined its policies for stimulating rural area consumption, such as those promoting the sales of home appliances, vehicles and motorcycles in rural areas, and continue to place importance on expanding County Area consumption as part of its overall efforts to expand domestic consumption.

Furthermore, the PRC government has launched a series of comprehensive rural reform initiatives, including County Area and Urban Area integration and rural property rights reform and has initiated a pilot program in selected provinces under which counties are given more authority and, as administrative units, are placed directly under the supervision of the provincial governments. These initiatives have contributed to the improvement in the quality and efficiency of resource allocation in the County Areas as well as the governments' capabilities in administering the economic and social affairs within their jurisdictions, and are expected to continue to promote economic growth and social development in the County Areas.

County Area Banking Market

China's County Area financial institutions include commercial banks, cooperative banks and policy banks. During the past several decades, County Area financial institutions, including Large Commercial Banks, Agricultural Development Bank, rural credit cooperatives, rural cooperative banks, rural commercial banks and Postal Savings Bank of China, have experienced substantial growth in terms of their aggregate deposits and loans. In addition, the overall health of China's County Area financial institutions in terms of their results of operations and asset quality has been improving. Particularly since 2004, County Area banking institutions have experienced a significant decrease in their non-performing loan ratios.

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The following table sets forth the main operating indicators of China's County Area financial institutions for the periods indicated.

	At and for the year ended December 31,			
	2004	2005	2006	2007
County Area loans (in trillions of RMB)	3.63	3.84	4.52	5.32
As a percentage of national total loans (%)	19.3	18.6	19.0	19.2
County Area deposits (in trillions of RMB)	5.75	6.76	8.00	9.11
As a percentage of national total deposits (%)	22.7	22.5	23.0	22.7
Profit attributable to County Area financial institutions (in billions of RMB) ..	9.90	18.10	35.12	70.48

Source: PBOC

In recent years, the Chinese government has implemented a series of policies to improve the operating environment for County Area financial institutions and expand the range of financial products and services available in the County Areas.

- The PRC government has applied differentiated regulatory and monetary policies to rural credit cooperatives and other rural financial institutions, including (i) temporarily exempting rural credit cooperatives from the CBRC regulatory supervision fees and (ii) applying to rural credit cooperatives a statutory deposit reserve ratio lower than what is typically applicable to commercial banks.
- Since October 29, 2004, the PBOC has removed interest rate ceilings on loans issued by commercial banks and has extended the range of floating interest rate charged by urban and rural cooperatives to 2.3 times of the applicable benchmark rate.
- On April 22, 2009, the MOF issued the Provisional Measures on Administering Fund for Rewarding Increases in Agriculture-related Loans by County Area Financial Institutions (財政縣域金融機構涉農貸款增量獎勵資金管理暫行辦法). Pursuant to the Provisional Measures and related supplemental notices, the MOF provides County Area financial institutions in Heilongjiang and seven other provinces a financial reward equal to 2% of the average balance of their respective outstanding agriculture-related loans in excess of the amount representing a 15% annual growth from the previous year.
- On August 21, 2009, the MOF and the SAT jointly issued the Notice on Policies for Pre-tax Deduction of Loss Provisions for Agriculture-related Loans and SME Loans Made by Financial Enterprises (關於金融企業涉農貸款和中小企業貸款損失準備金稅前扣除政策的通知), allowing a financial enterprise to deduct from its tax payable a specified percentage of its loan loss provision for agriculture-related loans and SME loans upon completion of the risk classification of such loans by the financial enterprise. This favorable policy is expected to expire on December 31, 2010.
- In 2009, the MOF issued the Notice on Issues Relating to Write-off of Non-performing SME Loans and Non-performing Agriculture-related Loans (關於中小企業和涉農不良貸款呆賬核銷有關問題的通知) allowing non-performing loans to small businesses and County Area customers, each in an amount of RMB5 million or less, to qualify for write-offs, provided that a good faith effort to collect the debt was made for more than a year.
- On May 13, 2010, the MOF and the SAT issued the Notice on Rural Finance Tax Policy (關於農村金融有關稅收政策的通知). Pursuant to the Notice, from January 1, 2009 to December 31, 2013, financial institutions are (i) exempted from paying business tax for

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interest income from small loans to agricultural households and (ii) entitled to take into account only 90% of interest income from these loans when calculating their taxable income. Furthermore, for the period from January 1, 2009 to December 31, 2011, rural credit cooperatives, township banks, rural mutual cooperatives, and loan companies and other corporate entities established solely by banking industry institutions, rural cooperative banks and rural commercial banks that are located at or below the county level under the PRC's administrative division system are subject to a reduced business tax rate of 3% for their banking and bancassurance income.

- On May 14, 2010, the PBOC, the MOF and the CBRC jointly issued the Notice on Matters Relating to Furthering Agricultural Bank of China's County Area Banking Division Reform on a Pilot Basis (關於深化中國農業銀行“三農金融事業部”改革試點有關事項的通知), or the Notice, delineating the scope, management structure and operating mechanism of our County Area banking division pilot reform program and the policy support for the pilot reform program. The Notice provides that the tax policies applicable to the agriculture-related loans at our 561 county-level sub-branches in Sichuan, Hubei, Guangxi, Gansu, Jilin, Fujian and Shandong provinces and Chongqing municipality, which represent all of the geographical areas for the pilot program, will be benchmarked against and similar to those applicable to rural credit cooperatives. In addition, the Notice exempts the county-level sub-branches participating in the pilot program from the CBRC regulatory supervision fees, which exemption is granted in reference to the fee policies applicable to rural credit cooperatives, and subjects these sub-branches to a differentiated statutory deposit reserve ratio.

In addition, the development of China's County Area banking industry has been facilitated by a series of important infrastructure developments and initiatives, including:

- *Construction of a Nationwide County Area Credit Information Infrastructure.* An electronic credit information database covering a majority of counties across China has been under development. With the ability to generate standardized credit scores for rural households, cooperatives, and enterprises based on financial information and credit records, the database is expected to significantly facilitate credit decision-making for County Area financial institutions;
- *An Improved Collateral-backed Financing System.* A number of developments have contributed to the improvement of sources and quality of financial collateral including the establishment of guarantee funds and guarantee institutions for loans to SMEs, improvement in the collateral appraisal, registration and certification procedures, improvement in the operations of the asset auction market and property rights transfer market as well as the improving convertibility of collateral into cash;
- *Introduction of Risk-mitigation Mechanisms.* The expansion of agricultural insurance programs, subsidized by the central government, and the rapid development of the futures market for agricultural products have also provided effective risk mitigation mechanisms for the County Area financial institutions. For example, as of December 31, 2009, 133 million rural households had participated in agricultural insurance programs, representing a year-over-year increase of 48% from 2008; and
- *Continued Expansion of Farmers' Specialized Economic Cooperatives.* The recognition of the legal status of farmers' economic cooperatives has greatly enhanced the expansion of

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various specialized rural cooperative organizations. In addition, the ongoing development of a credit information infrastructure for rural economic cooperative organizations, specialized associations and other organizational platforms is expected to further improve the credit risk environment in which rural financial institutions operate.

Despite the positive economic growth prospects of the County Areas, the overall County Area banking market currently remains underserved. In 2008, the ratio of County Area loans to the total County Area GDP was 40.2%, compared with a loans-to-GDP ratio of 171.5% for the Urban Areas. We believe that the sustained economic growth in the County Areas will continue to generate a significant increase in the demand for financial products and services. For example, credit demand in the County Areas is expected to continue to grow due to the financing needs associated with fixed asset investments in rural infrastructure, upgrading of consumer spending patterns, real estate developments, agribusiness plants and other projects. Similarly, rising financing demand propelled by agricultural modernization, is expected to promote the development of relevant fee- and commission-based banking business such as leasing and debt financing.

OUR COUNTY AREA BANKING BUSINESS

To strengthen our leading position in the County Area banking market, we have formed a dedicated County Area banking division based on our 2,048 county-level sub-branches and 22 business departments of our tier-2 branches and been implementing a pilot program to set up a business division dedicated to our County Area Banking Business. We believe that the establishment of such dedicated division further sharpens our strategic focus, improves our risk control and operational efficiency and allows us to better meet the rapidly growing and increasingly diversified banking needs of our customers in the County Areas. At December 31, 2009, the total loans and deposits attributable to our County Area Banking Business accounted for 28.8% and 40.5% of our total loans and deposits, respectively.

According to the CBRC, as of December 31, 2008, our total loans and total deposits represented a market share of approximately 13.6% and 21.6% in the County Area banking market, respectively.

The following chart sets forth the market share of banking institutions in the County Area banking market in term of the total deposits, saving deposits, total loans and the number of outlets as of December 31, 2008:

	As of December 31, 2008			
	Total Deposits	Saving Deposits	Total Loans	Number of Outlets
Agricultural Bank of China	21.6%	22.1%	13.6%	12.1%
Other Large Commercial Banks	34.0	27.6	33.7	11.4
Policy Banks	0.8	0.0	10.5	1.4
Rural Credit Cooperatives	22.7	27.2	28.9	45.4
Postal Savings Bank of China	10.8	15.3	0.4	23.0
Other Banking Institutions	10.1	7.8	12.9	6.7
County Area in Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: CBRC

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Organization Structure

Under our Board, we have established the County Area Banking Business Development Committee, which formulates the strategies, plans, policies and basic internal procedures and regulations applicable to our overall County Area Banking Business. Under our senior management, we have also established the County Area Banking Business Management Committee, which is primarily responsible for the implementation of decisions made by our Board related to our County Area Banking Business.

We have formed a County Area banking division dedicated to the operation of our County Area Banking Business. The division is under the charge of the division head, who also serves as our president and the head of our County Area Banking Business Management Committee. All important matters relating to our County Area Banking Business are submitted to our president for final determination following discussions at the meetings of the County Area Banking Business Management Committee.

Under our County Area banking division, we have set up several special sub-divisions performing functions such as policy research, procedures formulation, product development, marketing and credit management. In addition, to support our County Area banking division, we have established a number of middle and back office management centers at our head office, including County Area Banking Business audit and performance review center, risk management center, product research and development center and human resources management center.

Managed by our County Area banking division and its departments at our tier-1 and tier-2 branches, our 2,048 county-level sub-branches and 22 business departments of tier-2 branches are the basic business units through which we operate our County Area Banking Business.

Our County Area banking division operates independently within its granted authorization limits. Within our County Area banking division, authorization is delegated from a higher level and the relevant responsibilities are clearly laid out. While applying bank-wide management policies and procedures, it has established a set of policies and procedures tailored to the differentiated needs of our County Area Banking Business relating to, among others, credit management, resources allocation, performance review and risk management. See “Our History, Restructuring and Operational Reform—Operational Reform.”

Market Positioning

We have adopted a market positioning strategy for our County Area Banking Business that is different from that applicable to our Urban Area banking business. The strategic focus of our County Area Banking Business has been concentrating resources in our core business areas, strengthening our market leading position and maintaining competitive advantage in the County Areas. We have developed this strategy based on our current market leadership position in the County Area banking market and our in-depth understanding of the County Area economic development prospects and County Area banking business opportunities.

In order to better serve the diversified needs of our customers in the County Areas, we have dedicated more resources to perform County Area market segmentation. Our County Area corporate banking business targets industry-leading companies in the County Areas as well as their suppliers, customers and distributors. With respect to our County Area retail banking business, we will

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continuously leverage our Huinong Card (惠農卡) to develop business related to the new rural pension insurance and new rural cooperative medical insurance schemes to increase our deposits and fee and commission income. Our business operations in the County Areas are attuned to the different levels of economic development in various geographic regions. Specifically, we will:

- concentrate our branch outlets in counties, county-level cities and township centers;
- strengthen our business in the financially advanced eastern China and other developed County Areas;
- sharpen our focus on those counties with substantial growth potential in Central China and Western China; and
- allocate additional financial and management resources to selected County Area sub-branches to drive the growth of our business in the County Areas.

Customer Segmentation

We have a broad customer base in the County Areas. As of December 31, 2009, we served a total of approximately 33,700 corporate loan and discounted bill customers, 3.604 million retail loan customers, 1.15 million corporate deposit accounts and 340 million retail deposit accounts.

The rapid growth of the County Area economy in recent years has transformed our customer base in the County Areas from traditional agricultural product suppliers and distributors to high-quality industrial enterprises and affluent individuals with rising household income:

- *Corporate Customers.* Our target corporate customers are active participants in the urbanization and industrialization process. They include leading enterprises in the agricultural modernization process, major production centers of agricultural goods, wholesalers designated by the Ministry of Agriculture, merchandise distributors designated by the Ministry of Commerce, SMEs with growth potential, solid credit history and short working capital cycles, and suppliers and distributors of large and leading agriculture enterprises.
- *Retail Customers.* Our target retail customers are county residents and county-level city dwellers, private business owners and affluent rural households. We are establishing County Area wealth management centers to cater to these customers. In addition, we classify our retail customers by their assets and calibrate our sales and marketing activities accordingly. Through these efforts, we aim to develop our retail banking business by taking advantage of the opportunities presented by the growing wealth and increasing consumption of County Area residents.

Our Service Channels

With extensive presence in the cities, counties and towns across China, we have established an integrated banking distribution network through branch outlets, e-banking, phone banking, mobile phone banking, self-service centers, ATMs and customer service centers.

As of December 31, 2009, we established 12,737 branch outlets in the County Areas, covering 99.5% of the counties nationwide. According to the CBRC, as of December 31, 2008, the number of our physical branch outlets in the County Areas accounted for 12.1% of all County Area banking

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branch outlets nationwide and exceeded the total number of branch outlets of all other Large Commercial Banks combined.

We are committed to continuously developing our electronic service channels in the County Areas. As of December 31, 2009, we had 15,350 ATMs, 3,398 self-service centers, 4,666 self-service terminals, 88,089 POS machines, 606,823 tele-transfer machines, 8.28 million online banking customers, and 626,000 mobile banking users in the County Areas. Through our online banking system, we provide various County Area banking services, such as small loans to farmers and revolving credit to our retail customers. Through our phone banking system, we provide account inquiry, account transfer and financial management services and small loans to Huinong Card holders.

We established a County Area banking customer service center in Chengdu, Sichuan, in March 2010. This center provides product support, collects and distributes information and serves as a back-up customer service center.

We seek to strengthen mobile services channels, increase the number of electronic banking machines and promote the service offering by our on-the-move customer managers in areas which have not yet been covered by our network. We are also expanding our Huinong Card issuance and usage coverage by partnering with other rural financial institutions.

Product Portfolio

We have established a national center at our head office and a sub-center in Chongqing, which are jointly responsible for the research and development of our overall County Area banking products. Our branches and sub-branches in the County Areas then develop products catering to the specific needs of their respective local customers. In 2009, we introduced an umbrella brand “Jinyinong” (“金益農”), which enables us to provide a comprehensive County Area banking product portfolio to our customers. In addition to the bank-wide standardized products, we also provide the following products and services to our County Area customers:

Credit Products for Corporate Customers

Loans to Leading Agricultural Industrialization Enterprises

We actively target leading agricultural industrialization enterprises and provide them with various liquidity facilities, medium-to-long term project financing, fixed asset loans and other financial products.

County Area SME Loans

We provide a comprehensive set of products to cater to the needs of high-growth and high-quality SMEs, including secured loans and Self-Service Revolving Credit Facilities.

Urbanization Loans

To capitalize on the urbanization of the County Areas, we launched several loan products that are intended for infrastructure development and other purposes associated with County Area urbanization, including, among others, loans for township infrastructure development and loans for public utilities construction.

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Loans for County Area Merchandise Distribution

We endeavor to promote the facility and functional upgrade of wholesalers and merchandise distributors accredited by the Ministry of Agriculture of the PRC and the Ministry of Commerce of the PRC. We have developed financial products to support the expansion of leading enterprises with business operations in both Urban Areas and County Areas. Leveraging our extensive distribution network, we provide settlement, agency and other financial services to merchandise distributors and logistics enterprises in the County Areas.

Products for Retail Customers

Small Loans to Rural Households

In April 2008, we launched a loan product providing rural households with loans in amounts ranging from RMB3,000 to RMB50,000. The facility may be secured by mortgages, pledges, guarantees or joint guarantees by multiple rural households, while a household with a high credit rating can apply for a credit line of up to RMB10,000. The facility comes in the form of a loan with repayment term of three years or less or a one-year revolving credit.

Loans to County Area Private Business

We have loan products, targeting family businesses in the County Areas engaging in aquaculture, manufacturing, transportation, hospitality and other industrial activities. The amount of each loan is between RMB50,000 and RMB1 million.

Huinong Card

In April 2008, we leveraged our existing debit card platform and launched Kins Huinong Card (“金穗惠农卡”). In addition to the basic features of our Kins debit cards, our Kins Huinong Card incorporates enhanced features such as transaction records, small-amount loans to rural households, new rural cooperative medical insurance services, fee payment agency services and rural and agricultural subsidy payments. As of December 31, 2009, we had issued Kins Huinong Card to 33.36 million rural households.

In January 2009, we launched our Kins Huinong Credit Card (“金穗惠农信用卡”), targeting County Area entrepreneurs, small business owners and high-net-worth retail customers. Our Kins Huinong Credit Card provides cardholders with revolving credit. As of December 31, 2009, we had issued approximately 214,500 Kins Huinong Credit Cards.

In addition, our branches and sub-branches have developed various localized financial products to meet the diverse needs of County Area customers.

Fee- and Commission-based Business

We deliver various fee- and commission-based services through our payment and settlement platforms. We offer a comprehensive portfolio of investment banking services to our County Area corporate customers. We also distribute insurance policies, wealth management products and PRC government bonds. In 2009, we, as an agent, distributed wealth management products in an aggregate amount of RMB31.8 billion, placed fund products in an aggregate amount of RMB53.0 billion, and

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sold certificated savings bonds in an aggregate amount of RMB3.9 billion, each in the County Areas, an increase of 382.7%, 10.5% and 22.8%, respectively, from 2008.

Pricing Strategy

When we price our County Area banking products, we take into account the characteristics and competitive environment of the local market and our customers' risk profiles. Currently, in the County Area market, there is a significant demand for financial services and, according to the PBOC, our competitors regularly price their loan products significantly above the benchmark rate. We believe that our innovative and differentiated product offerings, extensive network and established brand name provide us with flexibility in pursuing a pricing strategy that aims at increasing our risk-adjusted returns.

Risk Management

We apply our bank-wide risk management policies and procedures to our operations in the County Areas. In addition, we have established a set of policies and procedures to specifically deal with risks in respect of our County Area Banking Business. See "Risk Management—Credit Risk Management—Credit Risk Management for County Area Banking Business."

ASSETS AND LIABILITIES

Assets

At December 31, 2009, the total assets of our County Area Banking Business amounted to RMB3,235.1 billion, an increase of 19.1% from RMB2,715.2 billion at December 31, 2008, which in turn increased by 42.1% from RMB1,911.2 billion at December 31, 2007. For details of the assets of our overall business, see "Assets and Liabilities—Assets."

Loans to customers and intra-bank balances are the two largest components of the asset portfolio of our County Area Banking Business. The following table sets forth, at the dates indicated, the components of the asset portfolio of our County Area Banking Business.

	At December 31,					
	2007		2008 ⁽¹⁾		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Loans to customers, total	1,057,137		832,278		1,193,413	
Allowance for impairment losses	(320,369)		(26,698)		(43,327)	
Loans to customers, net	736,768	38.6%	805,580	29.7%	1,150,086	35.6%
Intra-bank balances ⁽²⁾	1,093,614	57.2	1,800,086	66.3	1,975,226	61.1
Other assets ⁽³⁾	80,778	4.2	109,511	4.0	109,791	3.3
Total assets	1,911,160	100.0%	2,715,177	100.0%	3,235,103	100.0%

(1) The amount at December 31, 2008 reflected the effect of the restructuring-related disposal.

(2) Represents funds provided by our County Area Banking Business to our other business through internal funds transfers.

(3) Consists primarily of investment securities (including receivables), cash, deposits and placements with banks and other financial institutions and financial assets under resale agreements and fixed assets.

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Loans to Customers

At December 31, 2009, loans to customers of our County Area Banking Business amounted to RMB1,193.4 billion, an increase of 43.4% from RMB832.3 billion at December 31, 2008, representing a higher growth rate than that of our total loan portfolio. Loans to customers of our County Area Banking Business decreased by 21.3% to RMB832.3 billion at December 31, 2008 from RMB1,057.1 billion at December 31, 2007, primarily due to our restructuring-related disposal.

Distribution of County Area Loans by Product Type

The following table sets forth, at the dates indicated, loans to customers of our County Area Banking Business by product type.

	At December 31,					
	2007		2008 ⁽¹⁾		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)						
Corporate loans						
Short-term loans	523,392	49.6%	377,063	45.3%	449,139	37.6%
Medium- and long-term loans	315,503	29.8	259,748	31.2	381,954	32.0
Subtotal	838,895	79.4	636,811	76.5	831,093	69.6
Discounted bills	42,764	4.0	40,370	4.9	57,191	4.8
Retail loans						
Residential mortgage loans	75,393	7.2	86,047	10.2	134,282	11.3
Loans to private businesses	41,396	3.9	38,201	4.6	58,646	4.9
Personal consumption loans	19,112	1.8	18,812	2.3	36,394	3.0
Credit card balances	439	0.0	424	0.1	714	0.1
Loans to rural households	20,128	1.9	9,077	1.1	72,467	6.1
Others ⁽²⁾	19,010	1.8	2,536	0.3	2,626	0.2
Subtotal	175,478	16.6	155,097	18.6	305,129	25.6
Total loans to customers	1,057,137	100.0%	832,278	100.0%	1,193,413	100.0%

(1) The amounts at December 31, 2008 reflected the effect of the restructuring-related disposal.

(2) Consists primarily of education loans and certain other loan products.

Corporate loans are the largest component of the loan portfolio of our County Area Banking Business, representing 69.6%, 76.5% and 79.4% at December 31, 2009, 2008 and 2007, respectively. Corporate loans to customers increased by 30.5% to RMB831.1 billion at December 31, 2009 from RMB636.8 billion at December 31, 2008, primarily due to (i) the implementation of the PRC government's economic stimulus package, the continued economic growth in, and the urbanization of, the County Areas and the development of small towns and (ii) our increased efforts to grow our County Area Banking Business through the introduction of new products and services to our County Area corporate customers.

Corporate loans to customers decreased by 24.1% to RMB636.8 billion at December 31, 2008 from RMB838.9 billion at December 31, 2007, primarily due to our restructuring-related disposal.

Discounted bills increased by 41.7% to RMB57.2 billion at December 31, 2009 from RMB40.4 billion at December 31, 2008, primarily due to (i) the increased customer demand for this product and

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(ii) the increased liquidity in the market. Discounted bills decreased by 5.6% to RMB40.4 billion at December 31, 2008 from RMB42.8 billion at December 31, 2007, primarily because we reduced the discounted bills in the loan portfolio of our County Area Banking Business to make our funds available for lending to our valued customers and key projects.

Retail loans to customers increased by 96.7% to RMB305.1 billion at December 31, 2009 from RMB155.1 billion at December 31, 2008, primarily due to a combination of (i) a significant increase in our small-amount loans to rural households, primarily through our Huinong Cards, (ii) significant increases in personal consumption loans and loans to private businesses to RMB36.4 billion and RMB58.6 billion, respectively, at December 31, 2009, primarily as a result of our targeted marketing efforts to meet diversified customer needs, and (iii) an increase of 56.1% in residential mortgage loans to RMB134.3 billion at December 31, 2009, primarily as a result of our increased marketing efforts to meet the increasing demand from County Area households for loans to finance their purchases of residential properties, reflecting the rapid development of the County Area economy.

Retail loans to rural and agricultural customers decreased by 11.6% to RMB155.1 billion at December 31, 2008 from RMB175.5 billion at December 31, 2007, primarily due to our restructuring-related disposal.

Distribution of Loans by Geographical Region

We classify loans of our County Area Banking Business geographically based on the location of the branch outlets that originated the loan. Our branch outlets in the County Areas generally originate loans to borrowers located in the same geographical areas. The following table sets forth, at the dates indicated, the distribution of the loan portfolio of our County Area Banking Business by geographical region. For definitions of our geographical regions, see “Definitions and Conventions.”

	At December 31,					
	2007		2008 ⁽¹⁾		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Yangtze River Delta	292,742	27.7%	313,284	37.6%	427,059	35.8%
Pearl River Delta	56,699	5.4	60,571	7.3	96,902	8.1
Bohai Rim	171,382	16.2	125,450	15.1	177,499	14.9
Central China	176,970	16.7	76,446	9.2	131,943	11.1
Northeastern China	66,948	6.3	13,371	1.6	27,894	2.3
Western China	292,396	27.7	243,156	29.2	332,116	27.8
Total loans to customers	1,057,137	100.0%	832,278	100.0%	1,193,413	100.0%

(1) The amount at December 31, 2008 reflected the effect of the restructuring-related disposal.

We have increased our efforts to grow our lending business in the regions where the local County Area economy is relatively developed or has strong potential to grow, such as the Yangtze River Delta, Western China and Central China, and to optimize the geographical distribution of our loans attuned to the different levels of development in the County Areas. At December 31, 2009, loans to our County Area customers in the Yangtze River Delta, Western China and Central China increased by 36.3%, 36.6% and 72.6%, respectively, from December 31, 2008. The increases in these geographical regions in aggregate accounted for 71.5% of the total increase in our County Area loans from December 31, 2008 to December 31, 2009. The changes in the distribution of the loans of our

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County Area Banking Business by geographical region from December 31, 2007 to December 31, 2008 were primarily due to our restructuring-related disposal.

Asset Quality of Loan Portfolio

We classify the loan portfolio of our County Area Banking Business using the five-category loan classification criteria consistent with the loan classification criteria for our overall loan portfolio. See “Assets and Liabilities—Asset—Asset Quality of Our Loan Portfolio—Loan Classification Criteria.” The following table sets forth, at the dates indicated, the distribution of the loan portfolio of our County Area Banking Business by the five-category loan classification.

	At December 31,					
	2007		2008 ⁽¹⁾		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Normal	654,748	61.94%	675,929	81.21%	1,053,266	88.26%
Special mention	65,036	6.15	110,513	13.28	96,054	8.05
Substandard	14,500	1.37	30,453	3.66	20,980	1.75
Doubtful	82,565	7.81	13,288	1.60	20,386	1.71
Loss	240,288	22.73	2,095	0.25	2,727	0.23
Total loans to customers	1,057,137	100.00%	832,278	100.00%	1,193,413	100.00%
Non-performing loan ratio⁽²⁾		31.91%		5.51%		3.69%

(1) The amount at December 31, 2008 reflected the effect of the restructuring-related disposal.

(2) Calculated by dividing total non-performing loans to customers by total loans to customers.

Both the non-performing loan balance and the non-performing loan ratio of the loan portfolio of our County Area Banking Business decreased from December 31, 2007 to December 31, 2009. The non-performing loan ratio of the loan portfolio of our County Area Banking Business decreased to 3.69% at December 31, 2009 from 5.51% at December 31, 2008, primarily due to a combination of (i) our continued efforts to strengthen our credit risk management policies and procedures and refine credit risk management tools to control the formation of new non-performing loans, (ii) our increased efforts to recover non-performing loans, and (iii) our focus on lending to valued customers and key projects and (iv) the overall increase in the loan portfolio of our County Area Banking Business. The non-performing loan ratio of the loan portfolio of our County Area Banking Business significantly decreased to 5.51% at December 31, 2008 from 31.91% at December 31, 2007, primarily due to our restructuring-related disposal.

Changes in the Asset Quality of the New Loans and the Pre-existing Loans of Our County Area Banking Business

The following discussion analyzes the changes in the asset quality of the loans to customers of our County Area Banking Business at the dates presented. Pre-existing Loans include County Area loans made for the first time prior to January 1, 2004. New Loans include County Area loans made for the first time after January 1, 2004. Loans made for the first time prior to January 1, 2004 and rolled over after January 1, 2004 are included as Pre-existing Loans. For a discussion on the use of the January 1, 2004 as the starting date, see “Assets and Liabilities—Assets—Asset Quality of Our Loan Portfolio—Changes in the Asset Quality of Our Domestic Loan Portfolio by New Loans and Pre-existing Loans.”

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The following table sets forth, at the dates indicated, the balances of the New Loans and Pre-existing Loans of our County Area Banking Business.

	At December 31,					
	2007		2008 ⁽¹⁾		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
New Loans	643,961	60.9%	736,667	88.5%	1,111,328	93.1%
Pre-existing Loans	413,176	39.1	95,611	11.5	82,085	6.9
Total loans	1,057,137	100.0%	832,278	100.0%	1,193,413	100.0%

(1) The amount at December 31, 2008 reflected the effect of the restructuring-related disposal.

The following table sets forth, at the dates indicated, the distribution of the New Loans of our County Area Banking Business by loan classification category.

	At December 31,					
	2007		2008 ⁽¹⁾		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Normal	573,641	89.08%	615,147	83.50%	993,964	89.44%
Special mention	42,818	6.65	89,696	12.18	83,862	7.55
Substandard	7,016	1.09	22,163	3.01	17,215	1.55
Doubtful	16,629	2.58	8,750	1.19	14,675	1.32
Loss	3,857	0.60	911	0.12	1,612	0.14
Total New Loans	643,961	100.00%	736,667	100.00%	1,111,328	100.00%
Non-performing loan ratio⁽²⁾		4.27%		4.32%		3.01%

(1) The amount at December 31, 2008 reflected the effect of the restructuring-related disposal.

(2) Calculated by dividing total non-performing New Loans by total New Loans.

The following table sets forth, at the dates indicated, the distribution of the Pre-existing Loans of our County Area Banking Business by loan classification category.

	At December 31,					
	2007		2008 ⁽¹⁾		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Normal	81,107	19.63%	60,782	63.57%	59,302	72.24%
Special mention	22,218	5.38	20,817	21.77	12,192	14.86
Substandard	7,484	1.81	8,290	8.67	3,765	4.59
Doubtful	65,936	15.96	4,538	4.75	5,711	6.96
Loss	236,431	57.22	1,184	1.24	1,115	1.35
Total Pre-existing Loans	413,176	100.00%	95,611	100.00%	82,085	100.00%
Non-performing loan ratio⁽²⁾		74.99%		14.66%		12.90%

(1) The amount at December 31, 2008 reflected the effect of the restructuring-related disposal.

(2) Calculated by dividing total non-performing Pre-existing Loans by total Pre-existing Loans.

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Distribution of Non-performing Loans by Product Type

The following table sets forth, at the dates indicated, the non-performing loans in the loan portfolio of our County Area Banking Business by product type.

	At December 31,								
	2007			2008 ⁽¹⁾			2009		
	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾
(in millions of RMB, except percentages)									
Corporate loans									
Short-term loans	186,635	55.4%	35.66%	17,591	38.4%	4.67%	16,351	37.1%	3.64%
Medium- and long-term loans	108,675	32.2	34.44	24,418	53.3	9.40	23,328	52.9	6.11
Subtotal	<u>295,310</u>	<u>87.6</u>	<u>35.20</u>	<u>42,009</u>	<u>91.7</u>	<u>6.60</u>	<u>39,679</u>	<u>90.0</u>	<u>4.77</u>
Discounted bills	<u>72</u>	<u>0.0</u>	<u>0.17</u>	<u>71</u>	<u>0.2</u>	<u>0.18</u>	<u>61</u>	<u>0.1</u>	<u>0.11</u>
Retail loans									
Residential mortgage loans . . .	1,819	0.6	2.41	1,396	3.0	1.62	1,410	3.2	1.05
Loans to private businesses . . .	3,158	0.9	7.63	1,441	3.1	3.77	1,741	4.0	2.97
Personal consumption loans . .	2,978	0.9	15.58	211	0.5	1.12	226	0.5	0.62
Credit card balances	38	0.0	8.66	10	0.0	2.36	10	0.0	1.40
Loans to rural households	17,019	5.0	84.55	405	0.9	4.46	715	1.6	0.99
Others ⁽³⁾	16,959	5.0	89.21	293	0.6	11.55	251	0.6	9.56
Subtotal	<u>41,971</u>	<u>12.4</u>	<u>23.92</u>	<u>3,756</u>	<u>8.1</u>	<u>2.42</u>	<u>4,353</u>	<u>9.9</u>	<u>1.43</u>
Total non-performing loans	<u>337,353</u>	<u>100.0%</u>	<u>31.91%</u>	<u>45,836</u>	<u>100.0%</u>	<u>5.51%</u>	<u>44,093</u>	<u>100.0%</u>	<u>3.69%</u>

- (1) The amount at December 31, 2008 reflected the effect of the restructuring-related disposal.
(2) Calculated by dividing non-performing loans in each category by total loans in that category.
(3) Consists primarily of education loans and certain other loan products.

The non-performing loan ratio of the corporate loan portfolio of our County Area Banking Business decreased to 4.77% at December 31, 2009 from 6.60% at December 31, 2008, primarily due to (i) our continued efforts to strengthen our credit risk management policies and procedures, including our efforts to refine the customer identification process and implement targeted risk management measures based on our industry-specific credit guidelines applicable to various agriculture-related businesses and the development of the County Area economy, (ii) our strengthened post-disbursement monitoring over County Area corporate loans and (iii) the overall increase in the corporate loan portfolio of our County Area Banking Business. The non-performing loan ratio of the corporate loan portfolio of our County Area Banking Business significantly decreased to 6.60% at December 31, 2008 from 35.20% at December 31, 2007, primarily due to our restructuring-related disposal.

The non-performing loan ratio of the retail loan portfolio of our County Area Banking Business decreased to 1.43% at December 31, 2009 from 2.42% at December 31, 2008, primarily due to (i) our increased focus on risk control and monitoring throughout our lending process and on the preventive measure to reduce operational risk and moral hazard, (ii) our refinement of the repayment terms, based on various factors, such as business cycles and cash flow of agriculture-related businesses, and (iii) the overall increase in the retail loan portfolio of our County Area Banking Business. The non-performing loan ratio of the retail loan portfolio of our County Area Banking Business significantly decreased to 2.42% at December 31, 2008 from 23.92% at December 31, 2007, primarily due to our restructuring-related disposal.

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Distribution of Non-performing Loans by Geographical Region

The following table sets forth, at the dates indicated, the distribution of the non-performing loans our County Area Banking Business by geographical region.

	At December 31,								
	2007			2008 ⁽¹⁾			2009		
	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾
(in millions of RMB, except percentages)									
Yangtze River Delta	15,672	4.6%	5.35%	7,384	16.2%	2.36%	7,529	17.1%	1.76%
Pearl River Delta	5,877	1.7	10.37	2,721	5.9	4.49	2,723	6.2	2.81
Bohai Rim	59,662	17.7	34.81	4,983	10.9	3.97	4,703	10.7	2.65
Central China	110,503	32.8	62.44	5,780	12.6	7.56	5,259	11.9	3.99
Northeastern China	54,266	16.1	81.06	2,216	4.8	16.57	1,983	4.5	7.11
Western China	91,373	27.1	31.25	22,752	49.6	9.36	21,896	49.6	6.59
Total non-performing loans	337,353	100.0%	31.91%	45,836	100.0%	5.51%	44,093	100.0%	3.69%

(1) The amount at December 31, 2008 reflected the effect of the restructuring-related disposal.

(2) Calculated by dividing non-performing loans in each region by total loans in that region.

The non-performing loan ratios of our loans to County Area borrowers in all six geographical regions decreased from December 31, 2008 to December 31, 2009. The non-performing loan ratios of our loans to County Area borrowers in Northeastern China, Central China and Western China decreased by 9.46, 3.57 and 2.77 percentage points, respectively, from December 31, 2008 to December 31, 2009. The decreases in non-performing loan ratios of our loans to County Area customers in these regions were primarily due to (i) our increased efforts to strengthen risk management on loans to these regions, which historically had higher non-performing loan ratios and (ii) the overall increases in our County Area loans originated in these regions.

The non-performing loan ratios of loans of our County Area Banking Business to borrowers in all six geographical regions decreased from December 31, 2007 to December 31, 2008, primarily due to our restructuring-related disposal.

Intra-bank Balances

Intra-bank balances represent funds provided by our County Area Banking Business to our other business. Intra-bank balances amounted to RMB1,975.2 billion at December 31, 2009, an increase of 9.7% from RMB1,800.1 billion at December 31, 2008. As a percentage of the asset portfolio of our County Area Banking Business, intra-bank balances decreased to 61.1% at December 31, 2009 from 66.3% at December 31, 2008, primarily due to an increase in our lending in the County Areas.

Intra-bank balances increased both in absolute terms and as a percentage of the asset portfolio of our County Area Banking Business, to RMB1,800.1 billion and 66.3%, respectively, at December 31, 2008 from RMB1,093.6 billion and 57.2%, respectively, at December 31, 2007. The increases were primarily due to (i) our intra-bank transfer of the proceeds from the disposal of non-performing County Area loans as part of our restructuring-related disposal, and (ii) the increased funds provided to our other business from customer deposits of our County Area Banking Business.

COUNTY AREA BANKING BUSINESS

Liabilities and Sources of Funds

The total liabilities of our County Area Banking Business increased by 19.0% to RMB3,217.4 billion at December 31, 2009 from RMB2,703.5 billion at December 31, 2008, which in turn increased by 21.6% from RMB2,223.5 billion at December 31, 2007. For details of the liabilities and sources of funds of our overall business, see “Assets and Liabilities—Liabilities and Sources of Funds.”

Deposits from customers of our County Area Banking Business are the primary source of funding for our County Area Banking Business and represented 94.3%, 93.0% and 93.6% of total liabilities of our County Area Banking Business at December 31, 2009, 2008 and 2007, respectively.

The following table sets forth, at the dates indicated, the components of total liabilities of our County Area Banking Business.

	At December 31,					
	2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Deposits from customers	2,080,639	93.6%	2,514,308	93.0%	3,034,646	94.3%
Other liabilities ⁽¹⁾	142,881	6.4	189,190	7.0	182,760	5.7
Total liabilities	<u>2,223,520</u>	<u>100.0%</u>	<u>2,703,498</u>	<u>100.0%</u>	<u>3,217,406</u>	<u>100.0%</u>

(1) Consists of deposits and placements from banks and other financial institutions, financial assets sold under repurchase agreements, intra-bank funds received, borrowings from central bank, accrued staff cost, tax liabilities and other liabilities.

The total customer deposits of our County Area Banking Business increased by 20.7% to RMB3,034.6 billion at December 31, 2009 from RMB2,514.3 billion at December 31, 2008, which in turn increased by 20.8% from RMB2,080.6 billion at December 31, 2007. The overall increases in deposits from customers of our County Area Banking Business primarily reflected (i) an increase in household income of farmers, and (ii) our continued marketing efforts, leveraging our extensive branch network in the County Areas.

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The following table sets forth, at the dates indicated, the deposits from customers of our County Area Banking Business by product type and business line.

	At December 31,					
	2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate deposits						
Time	99,894	4.8%	119,554	4.8%	159,478	5.3%
Demand	528,611	25.4	581,293	23.1	774,663	25.5
Subtotal	<u>628,505</u>	<u>30.2</u>	<u>700,847</u>	<u>27.9</u>	<u>934,141</u>	<u>30.8</u>
Retail deposits						
Time	800,910	38.5	1,025,034	40.8	1,146,218	37.8
Demand	605,887	29.1	731,051	29.1	891,128	29.4
Subtotal	<u>1,406,797</u>	<u>67.6</u>	<u>1,756,085</u>	<u>69.9</u>	<u>2,037,346</u>	<u>67.2</u>
Other deposits⁽¹⁾	<u>45,337</u>	<u>2.2</u>	<u>57,376</u>	<u>2.2</u>	<u>63,159</u>	<u>2.0</u>
Total deposits from customers	<u><u>2,080,639</u></u>	<u><u>100.0%</u></u>	<u><u>2,514,308</u></u>	<u><u>100.0%</u></u>	<u><u>3,034,646</u></u>	<u><u>100.0%</u></u>

(1) Consists of margin deposits and funds deposited with us for remittances purposes.

Retail deposits are the primary component of the total customer deposits of our County Area Banking Business. Retail deposits represented 67.2%, 69.9% and 67.6% of the total deposits from customers of our County Area Banking Business at December 31, 2009, 2008 and 2007, respectively, which are higher by 9.0, 8.6 and 11.2 percentage points, respectively, than the percentages of retail deposits to the total deposits from customers of our overall business.

The general factors affecting retail and corporate deposits of our County Area Banking Business at December 31, 2009, 2008 and 2007 did not differ materially from those affecting retail and corporate deposits of our overall banking business. See “Assets and Liabilities—Liabilities and Sources of Funds—Deposits from Customers.”

Distribution of County Area Deposits by Geographical Region

We classify deposits geographically based on the location of the branch outlets taking the deposit. There is generally a high correlation between the location of the depositor and the location of the branch taking the deposit.

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The following table sets forth, at the dates indicated, the distribution of our deposits from customers of our County Area Banking Business by geographical region.

	At December 31,					
	2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Yangtze River Delta	450,339	21.6%	529,207	21.0%	666,811	22.0%
Pearl River Delta	157,977	7.6	183,115	7.3	213,932	7.1
Bohai Rim	313,889	15.1	388,819	15.5	467,407	15.4
Central China	451,869	21.7	549,672	21.9	639,747	21.1
Northeastern China	118,567	5.7	144,645	5.8	165,653	5.4
Western China	587,998	28.3	718,850	28.5	881,096	29.0
Total deposits from customers	2,080,639	100.0%	2,514,308	100.0%	3,034,646	100.0%

RESULTS OF OPERATIONS OF OUR COUNTY AREA BANKING BUSINESS

In 2009, profit before tax from our County Area Banking Business increased by 55.8% to RMB20.9 billion compared to RMB13.4 billion in 2008, primarily due to the continued growth of our County Area Banking Business, including increases in net interest income and net fee and commission income. Profit before tax from our County Area Banking Business increased by 42.5% to RMB13.4 billion in 2008 compared to RMB9.4 billion in 2007, primarily due to the growth of our County Area Banking Business, in particular attributable to an increase in net interest income.

For details of the results of operations of our overall business, see “Financial Information.”

The following table sets forth, for the years indicated, the condensed results of operations of our County Area Banking Business.

	For the year ended December 31,		
	2007	2008	2009
	(in millions of RMB)		
External interest income	51,696	62,889	57,708
External interest expense	(33,207)	(48,514)	(41,830)
Interest income from intra-bank balances ⁽¹⁾	18,149	45,953	54,575
Net interest income	36,638	60,328	70,453
Fee and commission income	8,974	10,671	14,146
Fee and commission expense	(133)	(255)	(453)
Net fee and commission income	8,841	10,416	13,693
Other net income ⁽²⁾	2,246	1,281	1,215
Operating income	47,725	72,025	85,361
Operating expenses	(30,644)	(45,757)	(46,892)
Provisions for impairment losses	(7,647)	(12,824)	(17,524)
Profit before tax	9,434	13,444	20,945

(1) Represents interest income earned on funds provided to our other business at internal funds transfer pricing, which is determined based on market rates.

(2) Includes net trading gain/(loss), net gain/(loss) on financial assets and liabilities designated as at fair value through profit or loss, net gain/(loss) on investment securities, net exchange gain/(loss) and other net operating income.

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Net Interest Income

Net interest income has been the largest component of operating income of our County Area Banking Business, representing 82.5%, 83.8% and 76.8% of operating income of our County Area Banking Business for the years ended December 31, 2009, 2008 and 2007, respectively. Net interest income of our County Area Banking Business increased by 16.8% to RMB70.5 billion in 2009 compared to RMB60.3 billion in 2008, which in turn increased by 64.7% compared to RMB36.6 billion in 2007.

External Interest Income

External interest income of our County Area Banking Business decreased by 8.2% to RMB57.7 billion in 2009 from RMB62.9 billion in 2008. External interest income of our County Area Banking Business increased by 21.7% to RMB62.9 billion in 2008 from RMB51.7 billion in 2007.

Interest income from loans to customers has been substantially all of the external interest income of our County Area Banking Business, representing 99.9%, 99.8% and 99.5% of our total external interest income of County Area Banking Business for the years ended December 31, 2009, 2008 and 2007, respectively.

Interest income from loans to customers decreased by 8.1% to RMB57.6 billion in 2009 from RMB62.8 billion in 2008, primarily due to a decrease in the average yield to 5.50% in 2009 compared to 7.80% in 2008, which was partially offset by an increase in the average balance. The decrease in the average yield was primarily due to (i) the consecutive decreases in the PBOC benchmark rates in the second half of 2008, which resulted in lower interest rates charged on loans made or repriced after such decreases, and (ii) weakened pricing power of PRC commercial banks under the increased competition in the lending market as a result of the rapid growth in bank loans, reflecting the effect of the moderately loose monetary policy in China.

Interest income from loans to customers increased by 22.0% to RMB62.8 billion in 2008 from RMB51.4 billion in 2007, primarily due to an increase in the average yield to 7.80% in 2008 compared to 5.57% in 2007, which was partially offset by a decrease in the average balance as a result of our restructuring-related disposal. The average yields on our corporate loans, discounted bills and retail loans in the loan portfolio of our County Area Banking Business increased by 233 basis points, 13 basis points and 212 basis points, respectively, in 2008 compared to 2007.

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The following table sets forth, for the years indicated, the average balance, interest income and average yield for each component of the loan portfolio of our County Area Banking Business. The average balances of loans are the average of the monthly balances.

	For the year ended December 31,								
	2007			2008 ⁽¹⁾			2009		
	Average balance	Interest income	Average yield(%)	Average balance	Interest income	Average yield(%)	Average balance	Interest income	Average yield (%)
(in millions of RMB, except percentages)									
Corporate loans	726,026	40,081	5.52%	625,953	49,141	7.85%	749,969	43,202	5.76%
Retail loans	146,313	8,947	6.11	146,372	12,045	8.23	231,895	12,989	5.60
Discounted bills	50,333	2,405	4.78	31,904	1,565	4.91	66,440	1,448	2.18
Total loans to customers	922,672	51,433	5.57%	804,229	62,751	7.80%	1,048,304	57,639	5.50%

(1) The amounts of the average balances and the average yields for the year ended December 31, 2008 reflected the effect of the restructuring-related disposal.

External Interest Expense

External interest expense of our County Area Banking Business decreased by 13.8% to RMB41.8 billion in 2009 from RMB48.5 billion in 2008. External interest expense of our County Area Banking Business increased by 46.1% to RMB48.5 billion in 2008 from RMB33.2 billion in 2007. Interest expense on deposits from customers of our County Area Banking Business has been substantially all of the external interest expense of our County Area Banking Business, representing 98.7%, 98.3% and 97.5% of the total external interest expense of our County Area Banking Business for the years ended December 31, 2009, 2008 and 2007, respectively.

The following table sets forth, for the years indicated, the average balance, interest expense and average cost for each component of customer deposits of our County Area Banking Business. The average balances of deposits are the average of the monthly balances.

	For the year ended December 31,								
	2007			2008			2009		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
(in millions of RMB, except percentages)									
Corporate deposits									
Time	114,844	3,312	2.88%	152,983	5,690	3.72%	214,290	4,995	2.33%
Demand	428,872	3,591	0.84	535,576	4,210	0.79	662,128	2,793	0.42
Subtotal	543,716	6,903	1.27	688,559	9,900	1.44	876,418	7,788	0.89
Retail deposits									
Time	752,061	20,471	2.72	935,912	32,570	3.48	1,140,834	30,117	2.64
Demand	526,040	5,013	0.95	680,546	5,206	0.76	833,669	3,392	0.41
Subtotal	1,278,101	25,484	1.99	1,616,458	37,776	2.34	1,974,503	33,509	1.70
Total deposits from customers	1,821,817	32,387	1.78%	2,305,017	47,676	2.07%	2,850,921	41,297	1.45%

Interest expense on customer deposits of our County Area Banking Business decreased by 13.4% to RMB41.3 billion in 2009 from RMB47.7 billion in 2008, primarily due to a decrease in the average cost to 1.45% in 2009 compare to 2.07% in 2008, which was partially offset by an increase in the average balance. The decrease in the average cost was primarily due to the decreases in the

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applicable interest rates for new deposits from customers taken, and existing customer deposits repriced, in the fourth quarter of 2008 and 2009, reflecting the effect of the consecutive decreases in the PBOC benchmark rates in the fourth quarter of 2008. The increase in the average balance was primarily attributable to (i) the increased liquidity as a result of the moderately loose monetary policy, and (ii) the continued increase in the County Area household income.

Interest expense on deposits from customers increased by 47.2% to RMB47.7 billion in 2008 from RMB32.4 billion in 2007, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average cost to 2.07% in 2008 compared to 1.78% in 2007. The increase in the average balance of our deposits from customers primarily reflected the preference of the customers of our County Area Banking Business for lower risk investments during the downturn of China's securities markets and the suspension by the PRC tax administration of levying interest tax. The increase in the average cost on our deposits from customer was primarily due to the effect of the consecutive increases in the PBOC benchmark rates in 2007.

Interest Income from Intra-bank Balances

Our County Area Banking Business recorded an interest income of RMB54.6 billion, RMB46.0 billion and RMB18.1 billion from intra-bank balances in 2009, 2008 and 2007, respectively, which represents the interest income recognized on the funds provided by our County Area Banking Business to our other business using our internal funds transfer pricing, which is determined based on market rates.

Net Fee and Commission Income

Net fee and commission income from our County Area Banking Business increased by 31.5% to RMB13.7 billion in 2009 from RMB10.4 billion in 2008, which in turn increased by 17.8% from RMB8.8 billion in 2007. The following table sets forth, for the years indicated, the principal components of net fee and commission income from our County Area Banking Business.

	For the year ended December 31,		
	2007	2008	2009
	(in millions of RMB)		
Fee and commission income			
Settlement and clearing fees	3,254	4,273	5,059
Agency commissions	3,036	2,225	3,383
Bank card fees	1,629	2,292	2,255
Consultancy and advisory fees	161	872	2,581
Others ⁽¹⁾	894	1,009	868
Total	8,974	10,671	14,146
Fee and commission expenses	(133)	(255)	(453)
Net fee and commission income	<u>8,841</u>	<u>10,416</u>	<u>13,693</u>

(1) Includes electronic banking services, custody, guarantees and commitments and other fee and commission income.

The general factors affecting net fee and commission income of our County Area Banking Business in 2009, 2008 and 2007 did not differ materially from those affecting net fee and commission income of our overall banking business. See "Financial Information—Results of Operations for the Years Ended December 31, 2009, 2008 and 2007—Net Fee and Commission Income."

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Operating Expenses

The following table sets forth, for the years indicated, the principal components of the operating expenses of our County Area Banking Business.

	For the year ended December 31,		
	2007	2008	2009
	(in millions of RMB)		
Staff costs	14,762	24,864	25,132
General operating and administrative expenses	7,914	11,175	13,673
Depreciation and amortization	2,969	4,897	3,978
Business tax and surcharges	3,329	3,976	3,832
Others	1,670	845	277
Total	<u>30,644</u>	<u>45,757</u>	<u>46,892</u>

The operating expenses of our County Area Banking Business increased by 2.5% to RMB46.9 billion in 2009 compared to RMB45.8 billion in 2008, which in turn increased by 49.3% from RMB30.6 billion in 2007. These increases were primarily due to (i) increases in our general operating and administrative expenses and staff costs attributable to the overall growth of our County Area Banking Business, and (ii) increases in supplementary retirement benefits and early retirement benefits as a result of changes to actuarial assumptions in 2008. The cost-to-income ratio (excluding business tax and surcharges) of our County Area Banking Business was 50.44%, 58.01% and 57.23% in 2009, 2008 and 2007, respectively, higher than that of our overall business, which was 43.37%, 45.30% and 34.60% in 2009, 2008 and 2007, respectively. The relatively high cost-to-income ratio (excluding business tax and surcharges) of our County Area Banking Business was primarily attributable to the fact that a significant portion of our branch outlets located in the County Areas on average generated less revenues than those in the Urban Areas.

Provisions for Impairment Losses

Provisions for impairment losses on assets of our County Area Banking Business increased by 36.7% to RMB17.5 billion in 2009 from RMB12.8 billion in 2008, primarily due to an increase in provisions for impairment losses on loans to customers of our County Area Banking Business as a result of (i) an increase in the loan portfolio of our County Area Banking Business, and (ii) our adoption of a more conservative approach to provisioning when macroeconomic conditions presented uncertainties. The coverage ratio of allowance to loans of our County Area Banking Business increased to 98.26% at December 31, 2009 from 58.25% at December 31, 2008. Provisions for impairment losses on assets of our County Area Banking Business increased by 67.7% to RMB12.8 billion in 2008 from RMB7.6 billion in 2007, primarily due to an increase in provisions for loans, reflecting the impact of the global financial crisis, the adverse developments in macroeconomic conditions and the Sichuan earthquake in 2008.

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Key Financial Indicators

The following table sets forth, at the dates and for the years indicated, key financial indicators of our County Area Banking Business.

	At and for the year ended December 31,		
	2007	2008	2009
Return on average total assets ⁽¹⁾	n.a.	0.57%	0.62%
Net fee and commission income to operating income	18.52%	14.46%	16.04%
Cost-to-income ratio ⁽²⁾	57.23%	58.01%	50.44%
Loan-to-deposit ratio	50.81%	33.10%	39.33%
Non-performing loan ratio ⁽³⁾	31.91%	5.51%	3.69%
Allowance to non-performing loans ⁽⁴⁾	94.97%	58.25%	98.26%
Allowance to total loans ⁽⁵⁾	30.31%	3.21%	3.63%

- (1) Represents the net profit for the period as a percentage of the average balance of total assets at the beginning and end of the period. The net profit for the period represents a product of profit before tax multiplied by the difference between 1 and the effective income tax rate of our bank. The average balance of total assets represents the average of the balance at the beginning of the period and the balance at the end of the period.
- (2) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income.
- (3) Calculated by dividing non-performing loans to customers by total loans to customers.
- (4) Calculated by dividing the allowance for impairment losses on total loans by total non-performing loans to customers.
- (5) Calculated by dividing the allowance for impairment losses on total loans by total loans to customers.