

2010

2010 ANNUAL REPORT



重庆农村商业银行
CHONGQING RURAL COMMERCIAL BANK

Annual Report

CHONGQING RURAL COMMERCIAL BANK

Stock Code: 3618

* *The Bank holds a financial license number B0335H250000001 approved by China Banking Regulatory Commission and was authorised by the Administration for Industry and Commerce of Chongqing to obtain a corporate legal person business license with a registration number 500000000001239. The Bank is not an authorised institution in accordance with the Hong Kong Banking Ordinance (Chapter 155 of Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on banking/deposit-taking business in Hong Kong.*

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Financial Summary

The financial information set forth in this annual report is prepared on a consolidated basis in accordance with the IFRS, and expressed in RMB unless otherwise stated.

Summary of Income Statement

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31			
	2010	2009	2008 ⁽³⁾	2007
Net interest income	7,501.8	5,474.5	5,183.3	4,314.2
Interest income	11,473.4	8,703.0	8,784.1	6,420.5
Interest expense	(3,971.6)	(3,228.5)	(3,600.8)	(2,106.3)
Net fee and commission income	285.8	136.7	74.3	53.4
Fee and commission income	308.9	148.8	88.3	66.1
Fee and commission expense	(23.1)	(12.1)	(14.0)	(12.7)
Net trading (loss)/gain	(46.2)	8.3	0.0	(2.8)
Other operating income, net	3.2	57.3	36.7	1,347.7
Operating income	<u>7,744.6</u>	<u>5,676.8</u>	<u>5,294.3</u>	<u>5,712.5</u>
Operating expenses	(3,910.1)	(3,190.7)	(2,472.6)	(1,845.8)
Impairment reversals/ (losses) on assets	45.2	(123.0)	(292.0)	(883.4)
Net gain/(loss) on disposal of available-for-sale financial assets	106.4	121.4	(0.4)	18.9
Profit before tax	3,986.1	2,484.5	2,529.3	3,002.2
Income tax expense	(924.9)	(596.2)	(534.1)	0.0
Profit for the year	<u>3,061.2</u>	<u>1,888.3</u>	<u>1,995.2</u>	<u>3,002.2</u>
Basic earnings per share (Expressed in RMB per share)	0.45	0.31	N/A⁽¹⁾	N/A⁽¹⁾
Total dividends	763.6⁽²⁾	232.1	N/A⁽¹⁾	N/A⁽¹⁾

- (1) In June 2008, before the Bank was incorporated as a joint stock limited company, its business was carried out by the Chongqing Rural Credit Cooperative Union (the “CRCU”) and 38 rural credit cooperative unions and Chongqing Wulong Rural Cooperative Bank collectively, the (“39 Rural Credit Unions”) at that time. As the corporate entity, each of the rural credit unions owns their share capital and has dividend distribution. Therefore, the Bank believes that it is not meaningful to disclose previous basic earnings per share and total dividends on a consolidated basis.
- (2) Information included a dividend of RMB360 million for the year 2009 and a special dividend of RMB403.6 million for the year 2010.
- (3) The income for the year 2008 represents the sum of the financial results of CRCU and the 39 Rural Credit Unions for the period from January 1, 2008 to June 26, 2008 and that of the Bank from June 27, 2008 to December 31, 2008.

Summary of Financial Position

(Expressed in RMB million, unless otherwise stated)	As at December 31			
	2010	2009	2008	2007
Loans and advances to customers, net	117,114.0	96,815.7	72,213.8	69,084.0
Loans and advances to customers, gross	121,024.5	99,331.7	73,091.4	75,398.6
Allowances for impairment losses of loans and advances to customers	(3,910.5)	(2,516.0)	(877.6)	(6,314.6)
Investment securities and other financial assets	67,901.4	47,430.4	34,346.4	23,012.6
Cash and balances with central bank	37,321.6	27,415.9	19,053.4	19,170.3
Deposits with banks and other financial institutions	17,220.2	10,154.4	5,355.2	3,532.4
Placements with other financial institutions	2,000.0	0.0	0.0	0.0
Financial assets held under resale agreements	37,158.0	13,374.2	29,941.3	2,205.2
Goodwill	440.1	440.1	440.1	0.0
Other assets	6,390.4	5,730.0	5,917.9	3,482.5
Total assets	285,545.7	201,360.7	167,268.1	120,487.0

(Expressed in RMB million, unless otherwise stated)	As at December 31			
	2010	2009	2008	2007
Due to customers	205,563.0	153,776.4	117,282.5	96,350.8
Deposits from banks and other financial institutions	11,711.8	4,135.6	2,176.8	800.1
Debt securities issued	2,300.0	2,300.0	0.0	0.0
Other liabilities	43,540.5	31,671.4	39,917.0	23,528.4
Total liabilities	263,115.3	191,883.4	159,376.3	120,679.3
Share capital	9,000.0	6,000.0	6,000.0	1,639.9
Reserves	10,698.9	1,407.6	1,284.6	4,999.8
Retained earnings/ (accumulated losses)	2,646.3	2,069.7	607.2	(6,832.0)
Equity attributable to equity holders of the Bank	22,345.2	9,477.3	7,891.8	(192.3)
Non-controlling interests	85.2	0.0	0.0	0.0
Total equity	22,430.4	9,477.3	7,891.8	(192.3)
Total equity and liabilities	285,545.7	201,360.7	167,268.1	120,487.0

Selected Financial Ratios

(Expressed in percentage)	For the year ended December 31			
	2010	2009	2008	2007
Profitability indicators				
Return on total assets ⁽¹⁾	1.07	0.94	1.19	2.49
Return on average total assets ⁽²⁾	1.26	1.02	1.39	3.02
Return on equity ⁽³⁾	13.65	19.92	25.28	N/A ⁽⁸⁾
Net interest spread ⁽⁴⁾	2.97	2.94	3.51	4.08
Net interest margin ⁽⁵⁾	3.07	3.06	3.68	4.16
Net fee and commission income to operating income	3.69	2.41	1.40	0.93
Cost-to-income ratio ⁽⁶⁾	44.40	49.23	40.84	29.12
Capital adequacy indicators				
Core capital adequacy ratio ⁽⁷⁾	14.78	8.14	9.31	N/A ⁽⁹⁾
Capital adequacy ratio ⁽⁷⁾	16.31	10.23	9.32	N/A ⁽⁹⁾
Total equity to total assets	7.86	4.71	4.72	N/A ⁽⁸⁾
Assets quality indicators⁽¹⁰⁾				
Non-performing loan ratio	2.38	3.88	8.68	13.22
Allowances to non-performing loans	172.81	126.85	83.43	63.33
Allowances to total loans	4.12	4.92	7.25	8.37
Other indicators⁽¹⁰⁾				
Loan-to-deposit ratio	59.42	66.21	66.38	78.25

Please refer to the following page regarding the basis of preparation of certain financial indicators.

Basis of preparation of certain financial indicators

Under the IFRS, the restructuring of the Bank was accounted for as an acquisition of the business from the 39 Rural Credit Unions and CRCU by our Bank on 27 June 2008 instead of merger accounting due to the fact that there were no same party or parties ultimately controlling the 39 Rural Credit Unions, CRCU and our Bank before and after the restructuring. For trend analysis straddling before and after the restructuring, certain disclosures in relation to loans and advances to customers and relevant assets quality indicators after the restructuring have been prepared based on the contractual amount of these loans for management purpose, which are not the same as the carrying amount of these loans and advances to customers stated in the audited financial statements of the Group.

- (1) Represents the profit for the year (including profit attributable to non-controlling interests) as a percentage of the year-end balance of total assets.
- (2) Represents the profit for the year (including profit attributable to non-controlling interests) as a percentage of the average balance of total assets at the beginning and the end of the year.
- (3) Represents the profit for the year (including profit attributable to non-controlling interests) as a percentage of the year-end balance of total equity including non-controlling interests.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (5) Calculated by dividing net interest income by average interest-earning assets.
- (6) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income.
- (7) Calculated in accordance with the guidelines issued by the China Banking Regulatory Commission (“CBRC”) and under the People’s Republic of China Generally Accepted Accounting Principles (“PRC GAAP”).
- (8) Not meaningful given that the Bank had a deficit total equity at December 31, 2007.
- (9) In 2007, the Bank’s business was carried out by CRCU and the 39 Rural Credit Unions, who separately complies with relevant core indicator ratio requirements. On such premise, our directors are of the view that it is unnecessary or even misleading to present those core indicators on consolidated basis.
- (10) Non-performing loan ratio, allowances to non-performing loans, allowances to total loans and loan-to-deposit ratio were calculated on basis of the contractual amount of loans.

Summary of Business Segment

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31							
	2010		2009		2008		2007	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Corporate banking business	3,284.3	42.41	2,322.4	40.91	2,556.2	48.28	2,153.1	37.69
Personal banking business	2,685.4	34.67	1,942.2	34.21	2,164.2	40.88	2,333.5	40.85
Treasury operations business	1,712.9	22.12	1,359.9	23.96	538.2	10.17	(121.8)	(2.13)
Unallocated	62.0	0.80	52.3	0.92	35.7	0.67	1,347.7	23.59
Total operating income	7,744.6	100.00	5,676.8	100.00	5,294.3	100.00	5,712.5	100.00

Summary of Geographical Segment

Expressed in percentage	On 31 December							
	2010		2009		2008		2007	
	County Area ⁽¹⁾	Urban Area	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area
Deposits	66.66	33.34	69.69	30.31	74.26	25.74	74.07	25.93
Loans	47.76	52.24	45.28	54.72	55.30	44.70	59.27	40.73
Assets	48.80	51.20	54.99	45.01	53.83	46.17	55.21	44.79
Return on average total assets	1.31	1.20	1.01	1.05	1.07	1.76	4.12	1.64
Net fee and commission income to operating income	2.51	5.03	2.56	2.15	1.58	1.18	0.61	1.87
Cost-to-income ratio	44.46	44.34	56.32	37.20	52.34	26.12	28.20	31.76
Loan-deposit ratio	42.57	93.09	43.02	119.55	49.43	115.27	62.62	122.93
NPL ratio	4.32	0.61	7.20	1.13	12.82	3.57	17.72	6.68
Allowance to non-performing loans	137.16	404.25	107.45	229.32	80.99	94.30	64.53	58.66

⁽¹⁾ County Area refers to the regions other than Urban Area of Chongqing City. In 2010, the data of County Area also includes the data of three subsidiaries namely Jiangsu Zhangjiagang Huaxin Village and Township Bank Co., Ltd., Sichuan Dazhu Longyuan Village and Township Bank Co., Ltd. (四川大竹隆源村鎮銀行股份有限公司) and Yunnan Dali Haidong Village and Township Bank Co., Ltd. (雲南大理海東村鎮銀行有限責任公司).



Company Information

Basic information

Legal name and abbreviation in Chinese	重慶農村商業銀行股份有限公司 (abbreviated as “重慶農村商業銀行”)
Legal name and abbreviation in English	Chongqing Rural Commercial Bank Co., Ltd. (abbreviated as Chongqing Rural Commercial Bank)
Legal representative	LIU Jianzhong
Authorised Representatives	TAN Yuansheng SUI Jun
Secretary to the Board	SUI Jun
Joint Company Secretary	SUI Jun CHENG Pik Yuk
Registered address and postcode	No. 10 East Yanghe Road, Jiangbei District, Chongqing City, PRC 400020
Principal place of business in Hong Kong	Level 28, Three Pacific Place 1 Queen’s Road East, Hong Kong
Company’s website	www.cqrcb.com
Email address	cqrcb@cqrcb.com
Newspapers for information disclosure (Domestic Shares)	China Securities Journal
Listing stock exchange, stock name and stock code	The Stock Exchange of Hong Kong Limited Stock name: CQRC Bank Stock code: 3618
Date and authority of first incorporation	June 27, 2008 Administration for Industry and Commerce of Chongqing, PRC

Registration number of corporate legal person business license	500000000001239
Code of organisational structure	67612972-8
Financial license institution number	The Bank holds a financial license number [B0335H250000001] approved by CBRC
Taxation registration number	Yu Guo Shui Zi (渝國稅字) No. 500105676129728 Yu Di Shui Zi (渝地稅字) No. 500105676129728
Auditors	Deloitte Touche Tohmatsu 35th Floor, One Pacific Place, 88 Queensway, Hong Kong Deloitte Touche Tohmatsu CPA Ltd. 30th Floor, No. 22, Yan'an East Road, Shanghai, PRC
Legal advisor as to PRC laws	Chongqing Jingsheng Law Firm 16th Floor, ABC, Peninsula International Business Tower (半島國際商務大廈), 50 Zou Rong Road, Yuzhong District, Chongqing City, PRC
Legal advisor as to Hong Kong laws	Junhe Law Offices Suite 2008, 20/F, Jardine House, 1 Connaught Place, Central, Hong Kong
Compliance Advisor	CMB International Capital Limited Units 1803-04, 18/F, Bank of America Tower, 12 Harcourt Road Central, Hong Kong
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wan Chai Hong Kong

Ranking and Awards



No. 446 among the Top 500 Enterprises of China in 2010
No. 135 among the Top 500 Service Enterprises of China in 2010
No. 170 among the Top 200 Efficient Enterprises of China in 2010
(中國企業效益200佳)



Advanced National Banking Enterprise Providing Financial Services to Small Enterprises
(全國銀行業金融機構小企業金融服務先進單位)



Online Regional Commercial Bank with Best Risk Prevention in 2010
(2010年區域性商業銀行網上銀行「最佳網銀安全獎」)



The 2010 State-owned Enterprise Contribution Award

Chongqing Enterprises Confederation
Chongqing Entrepreneur Association

No. 11 among Chongqing Top 100 Enterprises In 2010
(2010重慶企業100強第11位)
No. 5 among the Chongqing Top 50 Service Enterprises In 2010 (2010重慶服務業企業50強第5位)
Enterprise of Best Integrity In Chongqing for 2010
(2010重慶市最佳誠信企業)



Most Socially Responsible Bank (最具社會責任銀行)
Best Rural Financial Service Bank (最佳農村金融服務銀行)
Best Financial Services Bank for SMEs
(最佳中小企業金融服務銀行)



“Five Chongqings”(“五個重慶”) Institutions with Outstanding Construction Contributions
 Outstanding Institution Advanced the Two Wings Farming Household RMB10,000 Net Income Increase Project
 Outstanding Institution under “Greening Yangtze River, Chongqing in Action”(“綠化長江 重慶行動”)
 Outstanding Institution For Promoting Employment and Supporting Small Businesses
 (促就業、扶持微小企業卓越貢獻機構)



Best Financial Institution Providing “Sannong” Services
 (最佳三農服務金融機構)



Special Award of Financial Center Located at Upper Reaches of Yangtze River for Year 2010 (2010年度長江上游金融中心特別貢獻大獎)
 “Chongqing Forest and Green Yangtze River” Best Contributing Institution for the Year
 (“森林重慶綠色長江”年度最佳貢獻機構)
 Rising Star for Year 2010 (2010年度最具成長性銀行)
 Best Financial Services Institution for Small Business
 (最佳小企業金融服務機構)
 Rising Star (Credit Card) for Year 2010
 — Jiangy Credit Card (2010年最具成長性信用卡)
 — 江渝信用卡)



Chairman's Statement

Dear Shareholders,

In 2010, notwithstanding a sluggish global economic recovery, China's economy sustained healthy economic growth, especially with Chongqing, the only municipality directly supervised by the PRC central government in western China, having a unique bright spot. With a GDP growth rate as high as 17.1%, the city ranks second in China among its peers. As policies such as the Third Document of National Development, the Go West Policy, construction subsequent to the Three Gorges Project and the development of Liangjiang New Zone gathered pace, Chongqing's finance industry was provided with a favorable external environment and ample room for development. As the largest domestic bank in Chongqing, Chongqing Rural Commercial Bank continues to improve its corporate governance, strengthen its internal control, tighten its risk management, explore new business, fully tap into the market and improve its service functionality, thus scaling new heights in its business operation.

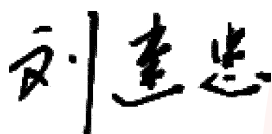
As at the end of 2010, the Group's total assets amounted to RMB285.546 billion. Its deposit balance and loan balance amounted to RMB205.563 billion and RMB122.145 billion, respectively. Its net profit amounted to RMB3.061 billion while its return on average assets and return on equity was 1.26% and 13.65%, respectively. With weighted net assets per share of RMB3.26, it was among the "Top 500 Enterprises of China" and "Global Bank 500" (全球銀行500強).

In 2010, the Bank deepened reforms and successfully completed its H-share listing, thus becoming the first listed rural commercial bank in China, the first H-share listed domestic bank and the first bank in Western China to go public. Solid progress was made in expanding its presence across regions by establishing three village and township banks in Zhangjiagang, Jiangsu Province, Dazhu County, Sichuan Province and Dali, Yunnan Province. We epitomised the transition from a local commercial bank into a regional listed bank and laid a remarkable milestone in our development.

The Bank embarked on year 2010 to expand its service for “Sannong”. By expediting its business development in County Areas, deposits and loans increased by 27.84% and 25.12%, respectively. With strengthened small and medium enterprises (“SME”) services, its SME loans accounted for 20% of market share in Chongqing. Customer marketing had also been improved. The entering into of strategic cooperation agreements with premium customers such as Hewlet-Packard and Foxconn enhanced the profile and reputation of the Bank. Following the improvement of its outlet and channel development and the commissioning of credit card, internet banking and other electronic channels, the Bank continues to improve its outlet distribution. The Bank also gained stronger resilience against risks following continuous improvement in its internal control system. Meanwhile, the Bank has been actively committed to its social undertakings, which improved its social image. During the year, the Bank donated a total of RMB20.74 million in support of the Greening Yangtze River campaign as well as the rehabilitation of the stricken area in Yushu of Qinghai, Zhouqu of Gansu and Wenchuan of Sichuan. The Bank has reasonably optimised the composition of its team and is widely recognised for its corporate culture, thus maintaining stability and harmony.

These achievements should not be taken for granted. We would not have gained the trust and support of public shareholders and investors without our enterprising and diligent staff, to whom I express my gratitude.

Looking forward, the Bank has entered into a new mileage in 2011. We will confront challenges, seize opportunities and stay prudent in operation. We will implement the strategy of rendering more universal and preferential subsidies and support to farmers, promotion of characteristic development across regions, differentiation for business expansion and more modernised management. We will speed up our business development and tighten capital control to better control risks, maximise returns and give back to shareholders and the society.



LIU Jianzhong
Chairman

25 March 2011



President's Statement

Dear Shareholders,

In 2010, amidst the complex economic environment and macro control of the State, Chongqing Rural Commercial Bank maintained a prudent and compliant approach for its operations, and struck a balance among business development, establishment of internal control and risk prevention. We achieved various operation goals and coordinated development across all business sectors.

Year in Review 2010

Significant increase in profitability

In 2010, the Group achieved a net profit of RMB3.061 billion, up RMB1.173 billion or 62.11% over the previous year. With return on average assets of 1.26%, weighted net earnings per share of RMB0.45 and weighted net assets per share of RMB3.26, the Bank outperformed H share listed banks on these fronts.

Operating income surged by 36.43% to RMB7.745 billion, among which net interest income increased by 37.03% to RMB7.502 billion and non-interest income soared, including a 109.07% rise in net fee and commission income to RMB286 million. Thanks to enhanced cost control and reasonable expense, the Group managed to restrain growth of operating expenses to merely 22.55%.

Continuous growth in business scale

The Group ranked first among banks in Chongqing in terms of total assets, which surged by 41.81% to RMB285.546 billion. Gross loans and advances to customers increased by 19.96% to RMB122.145 billion, and were mainly extended to county economy and local pillar industries, the top 500 enterprises in the world, Top 500 Enterprises of China, prime SME customers and individual customers in Chongqing. Total liabilities increased by 37.12% to RMB263.115 billion, while due to customers hit a record high of RMB200 billion and balance soared by RMB51.787 billion or 33.68% to RMB205.563 billion, boasting the largest loan size among banks in Chongqing.

Improving asset quality

Non-performing loan ratio slid by 1.5 percentage points to 2.38% from the end of the previous year, as the Group improved its asset quality amid rapid business expansion. The coverage ratio of allowances for impairment loss on loans posted 172.81%, up 45.96 percentage points over the end of the previous year, reflecting a stronger risk resistance capability. The Group's 16.31% capital adequacy ratio was in compliance with regulatory targets stipulated by the PRC banking industry.

Rapid development across all business segments

In 2010, the Group actively coped with challenges from the market and its peers by taking advantage of the reforms on coordinated urban and rural development in Chongqing as well as opening up of western China to the world. With rapid growth momentum in all fronts, the Group's performance was remarkable.

Significant progress in County Area business

Deposit balances and loans of County Area Branches amounted to RMB137.020 billion and RMB54.876 billion, respectively, up RMB29.838 billion or 27.84% and RMB11.018 billion or 25.12%, respectively. To fully stimulate the development vitality of County Areas, performance of branches and customer managers in County Areas was assessed on the basis of a resource-oriented approach and endeavours were made to support the "Two Wings" Farming Household RMB10,000 Net Income Increase Project, where an investment of RMB20.0 billion will be made by the Group in three years to support 2,000,000 farming households in "Two Wings" and increase the net income per farming household of the area by RMB10,000. Agricultural industrialisation was further encouraged, with RMB3.35 billion of loans outstanding from 185 national, municipal and provincial leading enterprises. Product innovation was also expedited. By initiating the launch of mortgages for agricultural machinery in the country, developing the first pilot loan products collateralised on farm house ownership in Chongqing and introducing new government support methods such as guaranteed loans for farming household namely "Fengdu", "Xiushan" and "Yunyang Baoping", the Group explored and found new ways of operating its rural finance business.

Fast-growing corporate banking business

The profit before tax from corporate banking was RMB1.645 billion, accounting for 41.26% of the Bank's profit. The Bank proactively supported the economic and social development in Chongqing and introduced seven principal products such as new factoring services, floating charge of assets and letters of credit in China. Apart from designating industry service groups and product managers to reinforce the chain effect and integration of marketing campaigns, it also forged close business collaboration with the various top world 500 enterprises and top 500 Enterprises of China in Chongqing. With the support of a group of institutional customers from all circles such as financial, taxation, state-owned land, hospital, universities and colleges and media sectors, its deposits and loans from institutions amounted to RMB17.1 billion and RMB3.407 billion, respectively, representing an increase of 109% and 70.35%, respectively. Small enterprise loan centres were established to specialise in the provision of loans for small enterprises, thus achieving a loan ratio per household of more than 8%. It also helped micro-enterprises to set up their own businesses and thus supported the growth of 75% of the micro-enterprises in the city. At the end of the year, loans outstanding from SME amounted to RMB64.0 billion.

Breakthrough in retail banking business

The profit before tax from the retail banking business was RMB909.5 million, accounting for 22.82% of the Bank's profit. The balance of retail loans grew by RMB14.497 billion or 51.58% to RMB42.600 billion, accounting for 34.88% of its total loans. Balance of individual loans edged up by RMB28.2 billion or 24.12% to RMB145.1 billion. The Bank's card business maintained quick momentum, with 1,776,300 cards newly issued during the year, representing an increase of 30.50%. The total number of cards issued increased to 7,599,500, resulting in a 36.62% growth in income from card business.

The Group gradually optimised its service channels through the construction of 39 retail loan centres and 738 consultancy counters, the commissioning of 343 new ATM machines, 220 self-service enquiry terminals, 781 POS terminals, the establishment of 4 self-service banking centres as well as the relocation and renovation of 286 outlets. With the successful launch of corporate and retail Internet banking as well as SMS banking, coupled with the commencement of systems such as merchant acquiring services and customer loyalty credits, transactions by electronic means gradually grew in significance.

New businesses such as the Jiangyu Credit Card, second mortgage loans and fund loan (公積金貸款) were also introduced, together with the launch of a total of RMB5.63 billion of Jiangyu's No.5 Renminbi wealth management products (江渝系列人民幣理財產品5期). With continued optimisation of services including lobby managers, front-line retail banking and retail loan consultancy, the opening of internet platforms for loan applications and an ongoing commitment to providing farmers with Jiangyu Xiangqing Card and other distinctive services and developing high-end value-added customer service platforms, the Bank saw ongoing improvement in service quality.

Treasury business coming of age

The tax before profit from treasury business was RMB1.418 billion, accounting for 35.56% of the Bank's profit. The Bank adopted a flexible approach to asset dispositions, reasonably adjusted its investment, actively introduced funding from banks and other financial institutions and prudently controlled transaction risks, resulting in growing operation efficiency. Its operating assets amounted to RMB164,728 million, representing an increase of RMB51,153 million or 45.04%. During the year, the Bank had operating income of RMB1,713 million, representing an increase of 25.96%.

Growing prominence in international business

The Bank's international business made a profit of RMB7.58 million shortly after a year of operation. The Bank continue to optimise its correspondent banking network and product structure by establishing correspondent banking relationships with 171 domestic and international renowned banks such as J.P. Morgan and ICBC. It also introduced a range of trade financing services such as the issue of letters of credit with credit limits, export/import bills of credit, export credit insurance finance, forfeiting and import refinance services. International settlement, settlement and sale of foreign exchange and foreign currency trading as well as international trade financing (including the issue of letter of credit with credit limits) undertaken by the Bank aggregated to US\$486 million, US\$289 million and US\$107 million, respectively.

Initial formation of an internal control system

A professional company in Beijing was engaged by the Bank to establish a new, comprehensive, scientific and stringent internal control regime. The Bank amended and fine-tuned 530 basic regulations and measures and incorporated more than 1,000 external laws and regulations. A GRC compliance and management system had been put in place and compliance training had been initiated bank-wide, covering all regulations and workflows to lay a solid foundation for the Bank's process-flow development.

Strengthened risk management

The Bank adhered to a risk-based approach and balanced risk management with business development. Effective measures were adopted to put major risks of credit, operations, market and liquidity in tight reins, which proved remarkably successful.

On credit risks, the Bank strived to fulfil the requirements of the macro economic control policies and refined its credit policies in response to changes, thus putting credit risks arising from financing platforms, the real estate sector and industries with high pollution, high energy consumption and excess capacity (“兩高一剩”) under effective control. Credit approval process was enhanced through delegated credit review and centralised credit authorisation processes. To encourage “disbursement of credit on actual demand”, management on account records were also strengthened and CBRC's new regulations on loans were strictly enforced. Efforts in risk monitoring and alert were intensified alongside enhanced supervision and post-disbursement management. Thanks to quickened disposal of non-performing assets, the Bank collected non-performing loans of RMB1.34 billion and disposed foreclosed assets of RMB450 million during the year.

On operational risks, the Bank further exercised an appointment system for accounting supervisors to promote accountability for accounting at all levels. It refined its systematic business workflow in all fronts by tightening the operation of front offices whilst exerting greater regulation and control on major sessions such as ATM card, important bank vouchers, accounts, authorisations, reconciliation and substantial money transfer. By doubling efforts in monitoring and inspection and pioneering special on-site inspection and “sudden re-inspection”, the Bank effectively guarded against operational risks.

On market and liquidity risks, the Bank identified and separated trading accounts and banking accounts and improved management on risk limit and transaction limit to further enhance risk and emergency handling capability. The pricing system of interest rates was also optimised alongside stronger market analysis and judgement.

In addition, leveraging more advanced technology as well as application of new risk management technologies and instruments at an accelerated speed, the Bank carried through all preliminary tasks for the implementation of New Capital Accord.

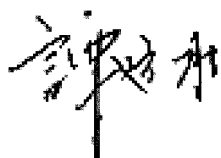
Outlook for 2011

In 2011, the global economy is improving as a whole but such recovery may be slow. The interplay of challenges in real economies and the sovereign debt crisis is likely to pose greater volatility and uncertainty in the economy. In face of dual pressures from sluggish external demand and a consistently high CPI, the domestic economy will be more complex and unpredictable than ever. The policy shift to a “proactive but steady, prudent but flexible” macro economic control by the State has put forth a higher requirement on banks for having an accurate grasp of policies, contributing to economic development and effecting risk control. In face of such complex scenario, we must make the best of our unique competitive advantage and carry forward business transformation to realise quality and sustainable development.

- Further enhancing our leading position in county area market. To this end, more resources will be allocated, more favourable policies will be implemented and greater amount of loans will be granted to county areas. Product and service innovation will also be stepped up to ever increase satisfaction and convenience of our financial services.
- Continuing to expand our city banking business. To take advantage of the development of Liangjiang Special Economic Zone in Chongqing (重慶兩江新區) and the opening up of western China to the world, and effectively tap into the resources and key construction projects of customers from pillar industries and quality enterprises to improve and strengthen our urban segment.
- Achieving for differentiation in development. We will focus on the three key segments, namely retail business, SME business and intermediary business. By opening up additional middle and high-end accounts, expanding our SME customer base and lifting the contribution of our fee- and commission-based businesses to differentiate ourselves from our competitors.
- Speeding up the establishment of service channels. We will press ahead with our outlet distribution and layout planning across regions and expand our business coverage and influence. We will also upgrade and renovate our business outlets with the theme of improving our image and service, and enlarge the customer base in electronic banking channels.
- Effectively enhancing internal control. We will establish a scientific, standardised, diligent, efficient and well-governed internal control mechanism comparable to standards of quality listed banks. We will control the size, the pace and composition of loan extension in a scientific manner whilst reinforcing post lending management. We will accelerate the development of a centralised accounting system, standardise our operations and enhance risk inspection. We will also further our efforts in IT development to strengthen overall risk management.

- Improving fund pricing and cost management. We will rationalise the pricing of interest rates to lift overall returns. We will promote lean workflows to cut operating costs.
- Strengthening regulations and business training. We will quickly improve the overall quality, professional expertise and execution capability of all our staff.

In 2011, we see both opportunities and challenges. We shall adhere to our principle of making the best of time to capture development opportunities, and move forward in a proactive and enterprising manner to maximise returns to shareholders and the society. We express our gratitude to all our staff for their hard work, to all our directors and supervisors for their stern support and to all our customers for their support and care. We sincerely hope that the community at large will continue their care and support for the Bank's development.



TAN Yuansheng

Executive Director and President

March 25, 2011



Management Discussion and Analysis

Financial Review

In 2010, the global economy managed to maintain its upturn in growth despite difficulties. With more uneven economic recovery across nations, the national economies of leading economies failed to reconcile with their monetary policies. Notably, the implementation of the quantitative easing policies in US will expose the world economy to greater uncertainties and risks in the future.

To confront the extremely complicated environment at home and abroad, China adhered to active fiscal policies and moderately loose monetary policies in 2010. In response to the global financial crisis, a wide range of measures were fully put in place and optimized on an ongoing basis. Hence, China achieved gross domestic product (GDP) of RMB39,798.3 billion, representing an increase of 10.3% based on comparable prices or 1.1 percentage points in terms of growth rate as compared to the previous year. The growth in national economy looks promising as a whole.

In general, the Chinese financial market had been performing steadily during 2010, with active transactions in the inter-bank market coupled with increase in market interest rate. As at the end of 2010, outstanding broad money (M2) reached RMB72.58 trillion, up 19.7% year on year, whereas outstanding narrow money (M1) reached RMB26.66 trillion, up 21.2% year on year. RMB-and-foreign-currency-denominated loans increased by RMB8.36 trillion, including an increase of 7.95 trillion in RMB-denominated loans and US\$74 billion in foreign-currency denominated loans, respectively. RMB-and-foreign-currency-denominated deposits increased by RMB12.14 trillion, including an increase of RMB12.05 trillion in RMB-denominated deposits and an increase of US\$20 billion in foreign-currency denominated deposits, respectively.

As a rural commercial bank, the Group took business developments, risk prevention and restructuring into overall consideration and struck a balance among them, thus recording operating results better than expected.

Income Statement Analysis

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31		Change in amount	Change (%)
	2010	2009		
Net interest income	7,501.8	5,474.5	2,027.3	37.03
Net fee and commission income	285.8	136.7	149.1	109.07
Net trading (loss)/gain	(46.2)	8.3	(54.5)	(656.63)
Other operating income, net	3.2	57.3	(54.1)	(94.42)
Operating income	7,744.6	5,676.8	2,067.8	36.43
Operating expenses	(3,910.1)	(3,190.7)	(719.4)	22.55
Impairment reversals/ (losses) on assets	45.2	(123.0)	168.2	(136.75)
Net gain from disposal of available-for-sale financial assets	106.4	121.4	(15.0)	(12.36)
Profit before tax	3,986.1	2,484.5	1,501.6	60.44
Income tax expense	(924.9)	(596.2)	(328.7)	55.13
Profit for the year	3,061.2	1,888.3	1,172.9	62.11

In 2010, the profit before tax of the Group amounted to RMB3,986 million, representing an increase of 60.44% as compared to the previous year; profit for the year amounted to RMB3,061 million, representing an increase of 62.11% as compared to the previous year. The increase in profit before tax and profit for the year exceeded 60% as compared to 2009, primarily attributable to: first, our substantial restructuring on deposit portfolio and loan structure, which had driven the net interest income to increase by RMB2,027 million or 37.03% as compared to the previous year; second, a rapid growth of RMB149 million or 109.07% in net fee and commission income constantly driven by proactive development of new services and product innovation and third, the increase of 36.46% in average balance of interest-earning assets, which had partly offset the impact of the decrease in interest yield.

Net Interest Income

In 2010, the net interest income of the Group amounted to RMB7,502 million, representing an increase of RMB2,027 million or 37.03% as compared to the previous year and accounting for 96.86% of the Bank's total operating income.

The following table sets forth, for the years indicated, the interest income, interest expense and net interest income of the Group.

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31		Change in amount	Change (%)
	2010	2009		
Interest income	11,473.4	8,703.0	2,770.4	31.83
Interest expense	(3,971.6)	(3,228.5)	(743.1)	23.02
Net interest income	7,501.8	5,474.5	2,027.3	37.03

The table below sets forth, for the years indicated, the average balances of our interest-earning assets and interest-bearing liabilities, related interest income or interest expense and average yields (for assets) or average costs (for liabilities).

(Expressed in RMB million, except percentages)	For the year ended December 31, 2010			For the year ended December 31, 2009		
	Average balance	Interest income/ expense	Average yield/cost (%)	Average balance	Interest income/ expense	Average yield/cost (%)
Assets						
Loans and advances to customers	113,577.1	7,110.1	6.26	99,642.0	6,160.7	6.18
Debt securities investments	68,423.8	2,869.0	4.19	43,341.2	1,912.8	4.41
Deposits with central bank	29,610.3	447.4	1.51	20,472.1	312.3	1.53
Deposits with banks and other financial institutions	32,487.5	1,046.9	3.22	15,428.5	317.2	2.06
Total interest-earning assets	244,098.7	11,473.4	4.70	178,883.8	8,703.0	4.87
Liabilities						
Due to customers	181,920.4	2,607.7	1.43	136,845.6	2,528.5	1.85
Deposits from banks and other financial institutions	47,245.1	1,363.9	2.89	30,064.0	700.0	2.33
Total interest-bearing liabilities	229,165.5	3,971.6	1.73	166,909.6	3,228.5	1.93
Net interest income		7,501.8			5,474.5	
Net interest spread			2.97			2.94
Net interest margin			3.07			3.06

Under the influence of interest rates and macro-economic control, the average yield on overall interest-earning assets dropped by 17 basis points to 4.70% as compared to the previous year.

The average cost for due to customers decreased as compared to the previous year, which was partly offset by the increase in the average cost of deposits from banks and other financial institutions, resulting in a drop of 20 basis points in average cost of overall interest-bearing liabilities to 1.73% as compared to the previous year.

Due to adjustments in interest rate by the People's Bank of China ("PBOC") and mismatched re-pricing of loans and deposits, the decline in the average yield of interest-earning assets was less than that of the average cost for interest-bearing liabilities, resulting in a rise of 3 basis points in net interest spread to 2.97% as compared to the previous year, whereas the net interest margin was driven up by 1 basis point to 3.07%.

The following table sets forth the changes in the Group's interest income and interest expense due to changes in volume and rate. Changes in volume are measured by the movement of the average balance, while changes in the interest rate are measured by the movement of the average interest rate.

(Expressed in RMB million)	Volume factor	Rate factor	Changes in interest income/ expense
Assets			
Loans and advances to customers	861.6	87.8	949.4
Debt securities investments	1,107.0	(150.8)	956.2
Deposits with central bank	139.4	(4.3)	135.1
Deposits with banks and other financial institutions	350.7	379.0	729.7
Changes in interest income	2,458.7	311.7	2,770.4
Liabilities			
Due to customers	832.9	(753.7)	79.2
Deposits from banks and other financial institutions	400.0	263.9	663.9
Changes in interest expense	1,232.9	(489.8)	743.1

Interest Income

In 2010, the interest income of the Group amounted to RMB11,473 million, representing an increase of RMB2,770 million or 31.83% as compared to the previous year.

Interest Income from Loans and Advances to Customers

The average balance, interest income and average yield for each component of loans and advances to customers of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31, 2010			For the year ended December 31, 2009		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	71,016.0	4,027.7	5.67	47,691.1	3,269.3	6.86
Retail loans	34,178.5	2,742.4	8.02	25,520.9	2,219.9	8.70
Discounted bills	8,382.6	340.0	4.06	26,430.0	671.5	2.54
Total loans and advances to customers	113,577.1	7,110.1	6.26	99,642.0	6,160.7	6.18

Interest income from loans and advances to customers increased by RMB949 million or 15.41% to RMB7,110 million as compared to the previous year, primarily due to the increase in both average balance and average yield of loans and advances to customers as compared to the previous year.

Interest Income from Debt Securities Investments

In 2010, the Group's interest income from debt securities investments increased by RMB956 million or 49.99% to RMB2,869 million as compared to the previous year, primarily due to a decline in average yield of debt securities investment, which was offset by the increase in its average balance.

Interest Income from Deposits with Central Bank

In 2010, the Group's interest income from deposits with central bank increased by RMB135 million or 43.26% to RMB447 million as compared to the previous year, primarily due to a 44.64% increase in average balance of deposits with central bank as compared to the previous year following a substantial increase in deposits from customers and the upward adjustment of the statutory deposit reserve ratio.

Interest Income from Deposits with Banks and Other Financial Institutions

The average balance, interest income and average yield for each component of deposits with banks and other financial institutions of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31, 2010			For the year ended December 31, 2009		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Deposits with banks and other financial institutions	6,554.6	176.4	2.69	6,911.1	102.9	1.49
Financial assets held under resale agreements	25,932.9	870.5	3.36	8,517.4	214.3	2.52
Total deposits with banks and other financial institutions	32,487.5	1,046.9	3.22	15,428.5	317.2	2.06

In 2010, the interest income from deposits with banks and other financial institutions of the Group increased by RMB74 million or 71.43% to RMB176 million as compared to the previous year, primarily due to sustained hike of interest rates in the money market, which drove the average yield of deposits with banks up by 120 basis points to 2.69% as compared to the previous year.

In 2010, the interest income from financial assets held under resale agreements increased by RMB656 million or 306.21% to RMB871 million, primarily due to a 204.47% increase in average balance as the Group increased bonds and bills held under resale agreements to raise short-term fund utilisation efficiency.

Interest Expense

In 2010, the Group's interest expense increased by RMB743 million or 23.02% to RMB3,972 million as compared to the previous year.

Interest Expense on Due to Customers

The average balance, interest expense and average cost for each component of due to customers of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31, 2010			For the year ended December 31, 2009		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Demand	36,207.0	216.3	0.60	24,837.6	142.6	0.57
Time	12,061.8	125.4	1.04	3,475.8	58.4	1.68
Subtotal	48,268.8	341.7	0.71	28,313.4	201.0	0.71
Retail deposits						
Demand	37,949.1	136.3	0.36	27,190.2	107.9	0.40
Time	95,702.5	2,129.7	2.23	81,342.0	2,219.6	2.73
Subtotal	133,651.6	2,266.0	1.70	108,532.2	2,327.5	2.14
Total due to customers	181,920.4	2,607.7	1.43	136,845.6	2,528.5	1.85

In 2010, the interest expense on due to customers of the Group increased by RMB79 million or 3.13% to RMB2,608 million as compared to the previous year, primarily due to a decline of 42 basis points in the average cost of due to customers to 1.43%, as a result of the Group's endeavors to improve the composition of due to customers as well as adjustments of interest rates by PBOC, effects of which were partially offset by the increase in average balance.

Interest Expense on Deposits from Banks and Other Financial Institutions

The average balance, interest expense and average cost for each component of deposits from banks and other financial institutions of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31, 2010			For the year ended December 31, 2009		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Deposits from banks and other financial institutions	8,167.3	221.3	2.71	3,034.0	76.9	2.53
Financial assets sold under repurchase agreements	36,777.8	1,016.1	2.76	27,030.0	623.1	2.31
Debt securities issued	2,300.0	126.5	5.50	0.0	0.0	0.00
Total deposits from banks and other financial institutions	47,245.1	1,363.9	2.89	30,064.0	700.0	2.33

In 2010, the interest expense on deposits from banks and other financial institutions of the Group increased by RMB664 million or 94.84% to RMB1,364 million, primarily due to the recovery of the capital market and the increase in average balance and average cost of deposits from banks and other financial institutions as compared to the previous year.

In 2010, the interest expense on deposits from banks and other financial institutions of the Group increased by RMB144 million or 187.78% to RMB221 million as compared to the previous year, primarily due to increases in the average balance and average cost of deposits from banks and other financial institutions.

In 2010, the interest expense on financial assets sold under repurchase agreements of the Group increased by RMB393 million or 63.07% to RMB1,016 million as compared to the previous year, primarily due to increases in the average balance and average cost of financial assets sold under repurchase agreements.

Debt Securities Issued

The interest costs on subordinated bonds of the Group were RMB127 million and nil respectively as of December 31, 2010 and 2009, as we issued subordinated bonds in December 2009. The average balances were RMB2,300 million and nil for 2010 and 2009, respectively.

Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

In 2010, the net interest spread of the Group increased by 3 basis points to 2.97% as compared to the previous year, the increase of which reflected a smaller decline in the average yield of interest-earning assets from the previous year than the decline in the average cost of interest-bearing liabilities over the previous year.

In 2010, the net interest income of the Group increased by RMB2,027 million or 37.03% to RMB7,502 million as compared to the previous year. In 2010, the average balance of interest-earning assets of the Group increased by 36.46%. As the growth in net interest income outstripped that of the average balance of interest-earning assets, the net interest margin of the Group increased by 1 basis point from the previous year to 3.07% in 2010.

Net Fee and Commission Income

In 2010, the net fee and commission income of the Group increased by RMB149 million or 109.07% to RMB286 million as compared to the previous year, and its proportion in operating income increased by 1.28 percentage points to 3.69%, primarily due to increase in consulting and financial advisory fee, agency service fees, bank card fees and settlement and clearance fees.

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31,		Change in amount	Change (%)
	2010	2009		
Fee and commission income	308.9	148.8	160.1	107.59
Settlement and clearance fees	34.2	11.6	22.6	194.83
Agency commissions	103.3	76.4	26.9	35.21
Bank card fees	54.3	36.8	17.5	47.55
Custodian and other fiduciary service fees	16.8	14.0	2.8	20.00
Consulting and advisory fee	90.9	8.6	82.3	956.98
Others	9.4	1.4	8.0	571.43
Fee and commission expense	(23.1)	(12.1)	(11.0)	90.91
Net fee and commission income	285.8	136.7	149.1	109.07

Settlement and Clearance Fees

In 2010, settlement and clearance fees increased by RMB23 million or 194.83% to RMB34 million as compared to the previous year, primarily due to an increase in the number of our clients and growth of our business following active marketing efforts and improvement in services.

Agency Commissions

In 2010, agency commissions increased by RMB27 million or 35.21% to RMB103 million as compared to the previous year, primarily due to aggressive market expansion and continuous growth in insurance agency business.

Bank Card Fees

In 2010, bank card fees increased by RMB18 million or 47.55% to RMB54 million as compared to the previous year, primarily due to continued stable growth in consumer spending (消費交易額) and transactions through self-service facilities (自助設備交易額) following the continuous increase in resources invested, optimised customer structure and improvement in card quality.

Custodian and Other Fiduciary Fees

In 2010, custodian and other fiduciary fees increased by RMB3 million or 20.00% to RMB17 million, primarily due to acceleration of channel construction and the increase in payroll services and the collection of utilities and telecommunications payments.

Consulting and Advisory Fees

In 2010, consulting and advisory fees increased by RMB82 million or 956.98% to RMB91 million as compared to the previous year, primarily due to our commitment to provide customers with diversified financial advisory services, catering to their individual needs and requirements in investment and finance, and the rapid growth we achieved in this area.

Others

In 2010, other fee and commission income increased by RMB8 million, or 571.43% to RMB9 million as compared to the previous year, primarily attributable to refinement of business system, upgrade of service standard and active promotion of foreign exchange services, guarantee services and wealth management services.

Fee and Commission Expenses

In 2010, fee and commission expenses increased by RMB11 million or 90.91% to RMB23 million as compared to the previous year, primarily because we actively diversified the distribution channels and settlement mechanisms for our fee and commission based products and services to improve our efficiency, which resulted in increase in expenses such as bank card and settlement fees.

Net Trading (Loss)/Gain

Net trading (loss)/gain primarily comprises changes in the fair value of held-for-trading debt securities and gain/(loss) arising from trading. In 2010, our net trading loss was RMB46 million, primarily due to restructuring of debt securities investment portfolio.

Other Operating Income, Net

In 2010, other operating income, net decreased by RMB54 million to RMB3 million as compared to the previous year, primarily because the gain from assets disposal and leasing was offset by the net loss in foreign exchange.

Net Gain/(loss) on Disposal of Available-for-sale Financial Assets

The following table sets forth, for the years indicated, our net gain on available-for-sale financial assets:

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31,		Change in amount	Change (%)
	2010	2009		
Net gain on disposal of available-for-sale financial assets	106.4	121.4	(15.0)	(12.36)

Operating expenses

In 2010, the operating expenses of the Group increased by RMB719 million, or 22.55% to RMB3,910 million as compared to the previous year.

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31,		Change in amount	Change (%)
	2010	2009		
Staff costs	2,341.1	1,809.7	531.4	29.36
Business tax and surcharges	471.5	396.5	75.0	18.92
Depreciation and amortisation	331.1	331.0	0.1	0.03
Others	766.4	653.5	112.9	17.28
Total operating expenses	3,910.1	3,190.7	719.4	22.55

Staff Costs

Staff costs are the largest component of operating expenses of the Group, accounting for 59.87% and 56.72% of its total operating expenses for the years ended December 31, 2010 and 2009 respectively.

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31,		Change in amount	Change (%)
	2010	2009		
Staff costs				
Salaries, bonuses and allowances	1,574.0	1,341.7	232.3	17.31
Staff welfare, social insurance and housing funds	405.9	390.7	15.2	3.89
Others	361.2	77.3	283.9	367.27
Total staff costs	2,341.1	1,809.7	531.4	29.36

In 2010, staff costs of the Group increased by RMB531 million or 29.36% to RMB2,341 million as compared to the previous year, primarily due to an increase of RMB232 million in salaries, bonuses and allowances as compared to the previous year following the provision of higher and better compensation schemes to its staff that aim to continually improve staff quality by offering market competitive compensation which attract and retain talented personnel. The increase of staff costs was also attributable to an increase of RMB275 million in retirement and internal retirement benefits over the previous year as a result of the increase in retirement and internal retirement benefits in a bid to alleviate the impact of inflation on the lives of our staff, as well as the increased number of retired and internally retired employees.

Business Tax and Surcharges

Business tax and surcharges mainly relate to revenue generated from our provision of financial products and services with respect to lending (interest income), transfer of securities, financial advisory services, and other financial services. Business tax and surcharges increased by RMB75 million or 18.92% to RMB472 million in 2010 as compared to the previous year.

Depreciation and Amortisation

Depreciation and amortisation expenses increased by 0.03% to RMB331.1 million for the year ended December 31, 2010 as compared to RMB331.0 million for the same period of 2009 as changes in our fixed assets remained stable throughout the year.

Others

For the year ended December 31, 2010, other general and administrative expenses increased by 17.28% to RMB766 million as compared to RMB654 million in the same period of 2009, primarily due to greater business expansion and additional cost in security measures.

Impairment Reversals/(Losses) on Assets

Impairment reversals/(losses) on assets consist primarily of provisions charged on loans and other assets. Provisions charged for impairment losses recorded a net gain of RMB45 million for the year ended December 31, 2010 as compared to an expense of RMB123 million for the same period of 2009. The change in impairment losses was primarily due to improvement in our asset quality and the recovery of loans and advances in 2010 which were written off in the previous years.

The following table sets forth, for the years indicated, the principal components of our provisions charged for impairment losses on assets.

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31,		Change in amount	Change (%)
	2010	2009		
Impairment reversals/ (losses) on assets				
Loans and advances to customers	4.8	117.5	(112.7)	(95.91)
Other impairment (reversals)/losses on assets	(50.0)	5.5	(55.5)	(1,009.09)
Total impairment (reversals)/losses on assets	<u>(45.2)</u>	<u>123.0</u>	<u>(168.2)</u>	<u>(136.75)</u>

In 2010, provision for impairment on loans and advances recorded RMB5 million as compared to RMB118 million for the year 2009, primarily due to the Group's aspiration to strengthen risk management and improve quality of loans, and together with the increase in recovery of loans and advances written off in previous years.

In 2010, provision for impairment on other assets recorded a net gain of RMB50 million as compared to an expense of RMB6 million for the year 2009. This mainly reflected to the Bank's efforts in enhancing the quality control over its assets and management.

Profit Before Tax

In 2010, the Group's profit before tax increased by RMB1,502 million or 60.44% to RMB3,986 million as compared to the previous year.

Income Tax Expense

The applicable income tax rate of the Group was 25%. The effective tax rates of the Group in 2010 and 2009 were 23.20% and 24.00% respectively.

The following table sets forth the profit before tax and income tax expense for the years ended December 31, 2010 and 2009.

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31,		Change in amount	Change (%)
	2010	2009		
Profit before tax	3,986.1	2,484.5	1,501.6	60.44
Tax calculated at applicable statutory tax rate of 25%	996.5	621.2	375.3	60.42
Add/(less) the tax effect of the following items:				
Non-deductible expenses	47.9	36.0	11.9	33.06
Non-taxable income	(119.5)	(61.0)	(58.5)	95.90
Income tax expense	924.9	596.2	328.7	55.13

Profit For the Year

In 2010, profit for the year increased by RMB1,173 million or 62.11% to RMB3,061 million as compared to the previous year.

Analysis on Statement of Financial Position

Assets

The following table sets forth, for the dates indicated, the composition of the Group's total assets (Contractual amount). (Please refer to page 6 of basis of preparation of loans and advances to customers shown as contractual amount)

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2010		As at December 31, 2009	
	Amount	% of Total (%)	Amount	% of Total (%)
Loans and advances to customers, net	117,114.0	41.02	96,815.7	48.08
Loans and advances to customers, gross ⁽³⁾	122,145.1	42.78	101,821.1	50.57
Allowances for impairment losses on loans and advances to customers ⁽³⁾	(5,031.1)	(1.76)	(5,005.4)	(2.49)
Investment securities ⁽¹⁾	59,373.2	20.79	40,881.8	20.30
Cash and balances with central bank	37,321.6	13.07	27,415.9	13.62
Deposits with banks and other financial institutions	17,220.2	6.03	10,154.4	5.04
Placements with other financial institutions	2,000.0	0.70	—	—
Financial assets held under resale agreements	37,158.0	13.01	13,374.2	6.64
Financial assets held for trading	482.2	0.17	—	—
Financial assets designated as at fair value through profit or loss	8,046.0	2.82	6,548.6	3.25
Goodwill	440.1	0.15	440.1	0.22
Other assets ⁽²⁾	6,390.4	2.24	5,730.0	2.85
Total assets	285,545.7	100.00	201,360.7	100.00

- Notes:
- (1) Investment securities consist of available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables;
 - (2) Other assets consist of fixed assets, intangible assets, deferred tax assets, and other assets;
 - (3) Loans to customers, gross and allowances for impairment losses on loans to customers were disclosed on basis of the contractual amount, resulting in discrepancies with those set out in the consolidated financial statements prepared under the IFRS.

As at December 31, 2010, the Group's total assets amounted to RMB285,546 million, an increase of RMB84,185 million, or 41.81% as compared to the previous year. Among which:

- (1) The amount of gross loans to customers increased by RMB20,324 million, or 19.96%, as compared to the previous year. This was primarily due to the fact that the Group increased loans to prime projects and key customers under effective risk control, whilst extending its loan support to areas with great market potentials and robust customer demand in line with the features in the economic development of Chongqing;

- (2) Investment securities increased by RMB18,491 million or 45.23%, primarily due to increased holdings of government bonds, bonds issued by policy banks and unsecured bonds with high ratings;
- (3) Cash and deposits with central bank increased by RMB9,906 million, or 36.13% as compared to the previous year, primarily due to the rise of the statutory deposit reserve ratio, together with the increase in required deposit reserve, as a result of a substantial increase in deposits from customers;
- (4) The total amounts of deposits with banks and other financial institutions and placements with other financial institutions increased by RMB9,066 million, primarily due to considerable increase in deposits with banks;
- (5) Financial assets held under resale agreements surged by RMB23,784 million and their proportion to total assets went up by 6.37 percentage points as compared to the previous year. This was mainly because the Group increased holdings on bonds and bills held under resale agreements in order to enhance capital utilization efficiency.
- (1) *Loans to customers (Contractual amount)*

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2010		As at December 31, 2009	
	Amount	% of Total (%)	Amount	% of Total (%)
Corporate loans	76,612.8	62.73	57,569.0	56.54
Short-term loans ⁽¹⁾	9,573.3	7.84	13,316.4	13.08
Medium- and long-term loans ⁽²⁾	67,039.5	54.89	44,252.6	43.46
Retail loans	42,600.4	34.87	28,103.5	27.60
Residential mortgage and personal commercial property loans ⁽³⁾	24,003.0	19.65	12,333.6	12.11
Personal business and re-employment loans ⁽⁴⁾	11,289.5	9.24	8,717.8	8.56
Loans to farmers ⁽⁵⁾	3,163.3	2.59	4,321.7	4.24
Others ⁽⁶⁾	4,144.6	3.39	2,730.4	2.69
Discounted bills	2,929.4	2.40	16,148.6	15.86
Trade financing	2.5	—	—	—
Loans to customers, gross	122,145.1	100.00	101,821.1	100.00

- (1) Short-term loans primarily consist of loans with contractual maturities of one year or less.
- (2) Medium- and long-term loans primarily consist of loans with contractual maturities over one year.
- (3) Residential mortgage and personal commercial property loans primarily consist of personal mortgage loan and second mortgage loans and loans to retail customers to acquire property for small business purposes, such as store premises.
- (4) Personal business and re-employment loans primarily consist of personal loans for business purposes, personal working capital loans and employment and re-employment related small amount loans.
- (5) Loans to farmers primarily consists of rural cross-guaranteed loans, rural small credit loans and rural home appliance consumption loans.
- (6) Others primarily consist of personal car loans, loans for personal durable goods and personal education loans.

As at December 31, 2010, the amount of gross loans to customers of the Group increased by RMB20,324 million, or 19.96% to RMB122,145 million as compared to the previous year.

Corporate loans increased by RMB19,044 million, or 33.08% to RMB76,613 million as compared to the previous year, and accounted for 62.73% of total loans and advances to customers, 6.19 percentage points higher than that of the previous year. In 2010, the Group actively adjusted the lending structure in support of the state's industrial policy, and focused on the sectors of infrastructure construction such as electricity, water, highways, environment, railway transportation, urban construction and public utility management. Additional loans to water resources, environment and public utility management amounted to RMB8,764 million during the year, accounting for an increase of 9.6 percentage points in its proportion in corporate loans as compared to the previous year.

The Group also reinforced credit structural adjustment and risk control by looking closely into the general direction and development trend of the industry whilst diligently adopting a differentiated approach to loan extension plans based on different regions, customers and industries under the strategy of "promoting some loans while curtailing others, advancing the superior while exiting the inferior" (有保有壓、有進有退). Strict control was imposed on industries with high pollution, high energy consumption and excess capacity (兩高一剩), as well as the real estate industry. In particular, the balance of corporate loans to the real estate industry decreased by 8.68 percentage points as compared with the beginning of the year.

Our retail loans increased by RMB14,497 million or 51.58% to RMB42,600 million as compared to the previous year, which accounted for 34.87% of total loans and advances to customers with a rise of 7.27 percentage points. Among which, the residential and commercial property mortgage loans, mainly to finance self-occupied home purchases, rose by RMB11,669 million, or 94.61%; personal loans for business purposes grew by RMB2,572 million, or 29.50%; and other loans increased by RMB1,414 million, or 51.79%. In face of complicated market changes, the Group took active measures to avoid systemic risk in markets, and primarily met credit needs of premium personal customers.

Discounted bills decreased by RMB13,219 million, or 81.86% to RMB2,929 million as compared with the previous year, largely due to proactive adjustments to the lending structure, downsizing of discounting business with relatively low yielding alongside the increase in loan business with higher returns.

(2) *Distribution of loans by type of collateral (Contractual amount)*

The following table sets forth, for the dates indicated, the distribution of loans to customers by type of collateral.

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2010		As at December 31, 2009	
	Amount	% of Total (%)	Amount	% of Total (%)
Unsecured loans	14,423.7	11.81	13,471.9	13.23
Guaranteed loans	24,171.2	19.79	14,643.6	14.38
Collateralised loans	73,132.5	59.87	50,276.0	49.38
Pledged loans	10,417.7	8.53	23,429.6	23.01
Loans to customers, gross	122,145.1	100.00	101,821.1	100.00

(3) *Allowance for Impairment Losses on Loans and Advances to Customers (Contractual amount)*

(Expressed in RMB million)	Allowance for impairment losses on loans and advances which is collectively assessed ⁽¹⁾	For the year ended December 31, 2010 Allowance for impairment losses on identified impaired loans and advances ⁽²⁾		Total
		For which allowance is collectively assessed	For which allowance is individually assessed	
As at January 1	2,575.8	1,482.7	946.9	5,005.4
Net (reversals)/additions	686.5	(258.9)	(422.8)	4.8
Written off	—	(373.2)	(40.9)	(414.1)
Recovery of loans and advances written off in previous years	—	350.3	224.7	575.0
Unwinding of discount on allowance	—	(56.4)	(83.6)	(140.0)
As at December 31	3,262.3	1,144.5	624.3	5,031.1

- (1) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.
- (2) Identified impaired loans and advances include loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either individually or collectively.

In 2010, the Group adhered to its prudent principle and was in strict compliance with the relevant requirements of accounting standards, so as to provide sufficient allowances for impaired loans and advances whilst fully considering external economic dynamics and macro monitoring policies. As at December 31, 2010, balance of allowances for impairment losses on loans and advances to customers increased by RMB26 million to RMB5,031 million over the previous year, and the coverage ratio for provisions increased by 45.96 percentage points to 172.81% as compared to the previous year.

Investments

The following table sets forth, for the dates indicated, the composition of the Group's investments.

(Expressed in RMB million, unless otherwise stated)	December 31, 2010		December 31, 2009	
	Amount	% of Total (%)	Amount	% of Total (%)
Financial assets held for trading	482.2	0.71	—	—
Financial assets designated as at fair value through profit or loss	8,046.0	11.85	6,548.6	13.81
Available-for-sale financial assets	1,444.4	2.13	1,400.4	2.95
Held-to-maturity investments	36,708.9	54.06	24,207.3	51.04
Debt securities classified as receivables	21,219.9	31.25	15,274.1	32.20
Total investments	67,901.4	100.00	47,430.4	100.00

As at December 31, 2010, total investments increased by RMB20,471 million to RMB67,901 million as compared to the previous year. Financial assets held for trading amounted to RMB482 million, which was fully attributable to the increased holding of certificate treasury bonds for 2010. Financial assets designated as at fair value through profit or loss increased by RMB1,497 million or 22.87%, primarily due to increased holdings of trading debt securities. Available-for-sale financial assets and held-to-maturity investments increased by RMB44 million and RMB 12,502 million respectively, primarily due to increased holdings of bonds issued by the government, PBOC and policy banks. Debt securities classified as receivables increased by RMB5,946 million as compared to the previous year, primarily due to increased holding of bonds issued by the government and PBOC, as well as purchase of high-yielding wealth management products.

Debt Securities Investments

The following table sets forth, for the dates indicated, the composition of debt securities investments of the Group.

(Expressed in RMB million, unless otherwise stated)	December 31, 2010		December 31, 2009	
	Amount	% of Total (%)	Amount	% of Total (%)
Government bonds	12,938.5	19.07	11,310.3	23.97
Public sector, quasi-government bonds	14,484.4	21.35	5,500.7	11.66
Financial institution bonds	3,269.7	4.82	3,848.0	8.16
Corporate bonds	9,854.8	14.53	6,443.0	13.65
Debt instruments issued by financial institutions	27,291.0	40.23	20,082.6	42.56
	67,838.4	100.00	47,184.6	100.00

Liabilities

The following table sets forth, for the dates indicated, the composition of total liabilities of the Group.

(Expressed in RMB million, unless otherwise stated)	December 31, 2010		December 31, 2009	
	Amount	% of Total (%)	Amount	% of Total (%)
Due to customers	205,563.0	78.13	153,776.4	80.14
Deposits from banks and other financial institutions	11,711.8	4.45	4,135.6	2.16
Financial assets sold under repurchase agreements	35,762.7	13.59	26,505.6	13.81
Debt securities issued	2,300.0	0.87	2,300.0	1.20
Other liabilities ⁽¹⁾	7,777.8	2.96	5,165.8	2.69
Total liabilities	263,115.3	100.00	191,883.4	100.00

(1) Other liabilities consist of accrued staff costs, taxes payable, interest payable and other payables.

As at December 31, 2010, total liabilities increased by RMB71,232 million or 37.12% to RMB263,115 million as compared to the previous year. Due to customers are our largest source of capital, which grew by RMB51,787 million or 33.68% and its proportion in total liabilities decreased by 2.01 percentage points to 78.13% as compared to the previous year. Deposits from banks and other financial institutions increased by RMB7,576 million or 183.19% as compared to the previous year.

Due to Customers

(Expressed in RMB million, unless otherwise stated)	December 31, 2010		December 31, 2009	
	Amount	% of Total (%)	Amount	% of Total (%)
Corporate deposits	55,519.6	27.01	33,772.5	21.96
Demand deposits	45,290.7	22.03	31,097.2	20.22
Time deposits	10,228.9	4.98	2,675.3	1.74
Retail deposits	145,146.5	70.61	116,902.7	76.02
Demand deposits	43,946.0	21.38	31,742.4	20.64
Time deposits	101,200.5	49.23	85,160.3	55.38
Security deposits	4,846.7	2.36	3,033.3	1.98
Other deposits	50.2	0.02	67.9	0.04
Total due to customers	205,563.0	100.00	153,776.4	100.00

As at December 31, 2010, due to customers increased by RMB51,787 million or 33.68% to RMB205,563 million as compared to the previous year. Corporate deposits increased by RMB21,747 million or 64.39% as compared to the previous year, the proportion of which in due to customers rose by 5.05 percentage points to 27.01%, primarily due to improved corporate liquidity in line with the economic upturn in China and the Bank's greater efforts in marketing to corporate customers. Demand deposits increased by RMB26,397 million or 42.01% to RMB89,237 million as compared to the previous year, outpacing the growth in time deposits by 15.15 percentage points. Its proportion in total due to customers increased by 2.55 percentage points to 43.41% as compared to the previous year, primarily due to the fact that demand deposits had taken up a larger share of the corporate deposits.

Shareholders' Equity

The following table sets forth, for the dates indicated, the composition of shareholders' equity of the Group.

(Expressed in RMB million, unless otherwise stated)	December 31, 2010		December 31, 2009	
	Amount	% of Total (%)	Amount	% of Total (%)
Share capital	9,000.0	40.12	6,000.0	63.31
Capital reserve	8,202.7	36.57	586.2	6.19
Investment revaluation reserve	16.5	0.07	65.7	0.69
Surplus reserve	575.5	2.57	263.9	2.78
General and regulatory reserve	1,904.2	8.49	491.8	5.19
Retained earnings	2,646.3	11.80	2,069.7	21.84
Equity attributable to shareholders of the Bank	22,345.2	99.62	9,477.3	100.00
Non-controlling shareholders	85.2	0.38	—	—
Total equity	22,430.4	100.00	9,477.3	100.00

As at December 31, 2010, paid-in capital increased by RMB3,000 million to RMB9,000 million as compared to the previous year, primarily due to the Group's proceeds of RMB1,000 million raised from state-owned shareholders and RMB2,000 million raised from the issue of H shares of the Bank, which was listed on the Main Board of the Hong Kong Stock Exchange. Capital reserve increased by RMB7,617 million as compared to the previous year, primarily due to share premiums. General and regulatory reserve increased by RMB1,412 million as compared to the previous year, as the general and regulatory reserve was required to be not less than 1% of year-end balance of risk assets.

Capital Adequacy Ratio

The following table sets forth, for the dates indicated, the relevant information of the Bank's capital adequacy ratio.

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2010	As at December 31, 2009
Core capital adequacy ratio (%) ⁽¹⁾	14.78	8.14
Capital adequacy ratio (%) ⁽²⁾	16.31	10.23
Components of capital base		
Share capital	9,000.0	6,000.0
Capital reserve which can be included	7,616.5	—
Surplus reserve and general and regulatory reserve	2,479.7	755.6
Unappropriated profit	2,768.1	2,142.8
Non-controlling shareholders' interests	85.2	—
Core capital	21,949.5	8,898.4
Deductible items	(44.6)	(58.7)
Net core capital	21,904.9	8,839.7
Supplementary capital:		
Reserve of fair value changes of available-for-sale financial assets ⁽³⁾	8.2	32.9
Long-term subordinated bonds	2,300.0	2,300.0
Total capital base before deductions	24,257.7	11,231.3
Deductions:		
Other deductible items	89.2	106.4
Equity investments which are not consolidated	—	11.1
Total capital base after deductions	24,168.5	11,113.9
Risk-weighted assets and market risk capital adjustment ⁽⁴⁾	148,206.7	108,589.6

- (1) Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 50% unconsolidated equity investments, by risk-weighted assets and market risk capital adjustment.
- (2) Capital adequacy ratio is calculated by dividing total capital base after deductions by risk-weighted assets and market risk capital adjustment.
- (3) The reserve arising from the cumulative net positive changes in the fair value of available-for-sale financial assets is excluded from the core capital and 50% of the balance is included in the supplementary capital.
- (4) The amount of market risk capital adjustment equals 12.5 times of the market risk capital.

Calculated in accordance with the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks promulgated by CBRC and relevant requirements, the Bank's capital adequacy ratio and core capital adequacy ratio as at December 31, 2010 increased by 6.08 percentage points and 6.64 percentage points, to 16.31% and 14.78% respectively, as compared to the end of the previous year.

Loan Quality Analysis (Contractual Amount)

Distribution of Loans by the Five-Category Classification (the Group)

The following table sets forth, for the dates indicated, the distribution of the Bank's loans by the five-category loan classification under which non-performing loans are classified into substandard, doubtful and loss categories.

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2010		As at December 31, 2009	
	% of total		% of total	
	Amount	(%)	Amount	(%)
Normal	105,981.2	86.77	81,083.1	79.63
Special mention	13,252.6	10.85	16,792.0	16.49
Substandard	869.2	0.71	1,018.4	1.00
Doubtful	2,029.7	1.66	2,854.1	2.80
Loss	12.4	0.01	73.5	0.08
Total loans and advances to customers	122,145.1		101,821.1	
Amount of non-performing loans	2,911.3		3,946.0	
Non-performing loan ratio (%)	2.38		3.88	

In 2010, the Bank strengthened its examination and evaluation of the macro-economic environment, tightened its control over credit acceptance and kept restructuring its credit portfolio. Risk surveillance was conducted in respect of major industries and substantial loans alongside accelerated development and application of risk measurement tools, improved early risk warning and post disbursement management as well as quickened disposal of non-performing loans, resulting in continuous improvement in credit asset quality. As at December 31, 2010, the balance of non-performing loans dropped by RMB1,035 million from the previous year to RMB2,911 million; while the non-performing loan ratio was 2.38%, 1.5 percentage points down from the previous year. Besides, the proportions of substandard and doubtful loans were on a decline. The amount of special mention loans accounted for 10.85%, 5.64 percentage points down from the previous year.

Distribution of Loans and Non-performing Loans by Product Type (the Group)

The following table sets forth, for the dates indicated, the loans and non-performing loans by product type.

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2010				As at December 31, 2009			
	Loan Amount	Non-performing loan Amount	Percentage of total	Non-performing loan ratio (%)	Loan Amount	Non-performing loan Amount	Percentage of total	Non-performing loan ratio (%)
Corporate loans	76,615.3	1,486.2	51.05	1.94	57,569.0	1,955.3	49.55	3.40
Short-term loans	9,575.8	208.1	7.15	2.17	13,316.4	441.7	11.19	3.32
Medium- and long-term loans	67,039.5	1,278.1	43.90	1.91	44,252.6	1,513.6	38.36	3.42
Retail loans	42,600.4	1,425.1	48.95	3.35	28,103.5	1,990.7	50.45	7.08
Residential mortgage and personal commercial property loans	24,003.0	97.7	3.36	0.41	12,333.6	212.2	5.38	1.72
Personal business and re-employment loans	11,289.5	467.7	16.06	4.14	8,717.8	687.6	17.43	7.89
Loans to farmers	3,163.3	649.4	22.31	20.53	4,321.7	815.5	20.67	18.87
Others	4,144.6	210.3	7.22	5.07	2,730.4	275.4	6.97	10.09
Discounted bills	2,929.4				16,148.6			
Total	122,145.1	2,911.3		2.38	101,821.1	3,946.0		3.88

As at December 31, 2010, the non-performing loans ratio for corporate loans decreased by 1.46 percentage points to 1.94% and that for personal loans dropped by 3.73 percentage points to 3.35% as compared to the previous year.

Distribution of Loans and Non-performing loans by Industry (the Group)

The following table sets forth, for the dates indicated, the loans and non-performing loans by industry.

	As at December 31, 2010				As at December 31, 2009			
	Loan Amount	Non-performing loan Amount	Percentage of total	Non-performing loan ratio (%)	Loan Amount	Non-performing loan Amount	Percentage of total	Non-performing loan ratio (%)
(Expressed in RMB million, unless otherwise stated)								
Total corporate loans	76,615.3	1,486.2	51.05	1.94	57,569.0	1,955.3	49.55	3.40
Manufacturing	22,279.7	312.0	10.72	1.40	17,020.6	513.2	13.01	3.02
Production and supply of electricity, gas and water	4,751.8	20.6	0.71	0.43	4,948.8	40.2	1.02	0.81
Real estate	12,188.5	616.1	21.16	5.05	14,157.5	750.6	19.01	5.30
Leasing and commercial services	1,306.1	142.4	4.89	10.90	4,021.5	18.0	0.46	0.45
Water, environment and public utilities management	12,925.7	2.4	0.08	0.02	4,161.8	0.4	0.01	0.01
Construction	6,019.9	24.8	0.85	0.41	3,026.2	89.4	2.27	2.95
Wholesale and retail	4,414.7	80.0	2.75	1.81	2,718.5	110.3	2.80	4.06
Others	12,728.9	287.9	9.89	2.26	7,514.1	433.2	10.97	5.77
Personal loans	42,600.4	1,425.1	48.95	3.35	28,103.5	1,990.7	50.45	7.08
Discounted bills	2,929.4				16,148.6			
Total	122,145.1	2,911.3		2.38	101,821.1	3,946.0		3.88

In 2010, the Bank continued to revise its industry profile whilst formulating guidelines on the industrial distribution of loans and risks. It also used lists to manage customers in exiting category, enhanced its supervision on high-risk industries and pioneered a trial management on industry quotas. As a result, the Bank maintained a double-dip in non-performing loans to both real estate and manufacturing industries and their corresponding non-performing loan ratios, evidenced by the decrease of RMB135 million and RMB201 million in non-performing loans and the decrease of 0.25 percentage points and 1.62 percentage points in non-performing loan ratios as compared to the previous year, respectively.

The structure of overdue loans classified by overdue periods

Overdue Assets

The total amount of overdue loans and advances to customers categorized by the following overdue periods (the Group)

	As at December 31, 2010		As at December 31, 2009	
	Amount	Percentage of the total loans	Amount	Percentage of the total loans
(Expressed in RMB million, unless otherwise stated)		(%)		(%)
Past due for 90 days	1,561.6	1.28	1,834.2	1.80
Past due for 90 to 360 days	952.8	0.78	1,828.3	1.80
Past due for 360 days to 3 years	1,325.9	1.08	1,506.0	1.48
Past due for more than 3 years	733.3	0.60	378.4	0.37
Total	4,573.6	3.74	5,546.9	5.45

As at December 31, 2010, the total amount of overdue loans amounted to RMB4,574 million, RMB973 million down from the end of the previous year,. The percentage of overdue loans accounted for 3.74%, 1.71 percentage points down from the previous year.

Analysis of Off-balance-sheet Items

Off-balance-sheet items of the Group include acceptance of bills of exchange, issuance of letters of credit, letters of guaranteed funds, receivables under export letters of credit, collection of foreign exchange funds receivables, collection of foreign exchange funds, foreign letters of credit by faith and wealth management, among which, acceptance of bills of exchange and issuance of letters of credit were deemed as key business segments. As at December 31, 2010, the balances of amount from acceptance of bills of exchange and letters of credit were RMB4,844 million and RMB337 million, respectively.

Significant Accounting Estimates and Judgments

In determining the carrying amounts of some assets and liabilities and the related profit or loss during the reporting period with its accounting policies, the Group makes estimates and judgments in certain aspects. These estimates and judgments involve assumptions about items such as risk adjustment to cash flows or discount rates used, and future changes in prices affecting other costs. The Group makes estimates and assumptions based on historical experience and expectations of future events, and reviews them on a regular basis. In addition, the Group needs to make further judgments in respect of the application of accounting policies. The Group's management believes that the estimates and judgments made by the Group reflect appropriately the economic context the Group was subject to. The major areas affected by the estimates and judgments include: loans and advances to customers, supplementary retirement benefit and early retirement benefit obligation, fair value of financial instruments, classification of held-to-maturity investments, and income taxes. Please refer to Note "Critical accounting judgments and key sources of estimated uncertainty" in the audited financial statements of the annual report.

Business Operation

Corporate Banking Business

The following table sets forth the major operation figures of the corporate banking business and changes thereof:

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31, 2010	For the year ended December 31, 2009	Changes (%)
Net interest income	3,214.2	2,289.6	40.38
Net fee and commission income	70.1	32.8	113.72
Operating income	3,284.3	2,322.4	41.42
Operating expenses	(1,957.7)	(1,630.8)	20.05
Impairment reversals on assets	318.1	122.4	159.89
Profit before tax	1,644.7	814.0	102.05
	December 31, 2010	December 31, 2009	
Segment assets	74,940.9	57,441.5	30.46

In 2010, the total profit before tax from the corporate banking business increased by 102.05% to RMB1,600 million over the previous year, accounting for 41.26% of the Bank's profit before tax, up 8.49 percentage points over the previous year, remaining to be the Bank's primary source of profit. The overall growth in corporate loan business of the Group had driven the net interest income of the Bank to increase by 40.38% over the previous year. Following its financial restructuring and establishment as a commercial bank, the Bank is able to develop and offer a broad array of fee and commission-based products and services. This, together with its aspiration of marketing its consulting and financial advisory services to corporate customers, raised the net fee and commission income by 113.72% to RMB70 million. Due to ongoing credit expansion and more prudent operation of the Group, expenses from impairment reversals on assets increased by 159.89% over the previous year.

Corporate deposits maintained fast growth momentum. The Group strived to capture the corporate deposit market and continued to achieve rapid growth in corporate deposits. As at December 31, 2010, the balance of corporate deposits of the Group reached RMB60,400 million, including margin deposits and other deposits, which accounted for 29.39% of the total balance of deposits of the Group whilst posting a growth of RMB23,500 million or 63.85% over the previous year, boasting the fastest growth in corporate deposits in history. Such achievement not only helped the Group break the rule of a 20/80 deposit composition but also drove the Group's deposits to exceed RMB200,000 million in 2010.

A prudent and moderate credit policy was adopted for corporate loans. On credit extension, the Group persisted in operating in compliance with laws and abided by the principle of "promoting some loans while curtailing others". The Group effectively observed the macro economic control policy of the country and expanded its corporate loan business in a prudent, steady and appropriate manner. As at December 31, 2010, the balance of corporate loans amounted to RMB79,500 million (including discounted bills), representing an increase of RMB5,800 million or 7.87% over the previous year. Excluding the effect of the decrease in discounts, the balance of corporate loans actually increased by RMB19,000 million or 33.09%. Meanwhile, asset quality of corporate loans continued to improve, with outstanding non-performing loans (excluding discounted bills) and non-performing loan ratio of RMB1,500 million and 1.94%, respectively, representing a decrease of RMB500 million and 1.46 percentage points respectively.

The structure of credit assets was further optimized. On industry structure, in adherence to Chongqing's industry strategy of "making substantial investments, building large bases and developing pillar industries" and with reference to the actual conditions of its three major segments, namely "IT, modern equipment manufacturing and heavy chemical", the Group focused on extending loans to the manufacturing, water conservancy and environment and public utility management, production and supply of electricity, gas and water, and retail and wholesale industries, which accounted for 29.08%, 16.87%, 6.20% and 5.76% of the total amount of corporate loans of the Group (excluding discounted bills), respectively. In working on its customer profile, the Group remained committed to forging closer collaboration with quality enterprises among the top 500 enterprises in the world, top 500 enterprises of China, top 100 enterprises of Chongqing, industry leaders as well as government institutions whilst maintaining and strengthening its partnership with prime SME customers. As at December 31, 2010, the Bank had a total of 2,448 SME customers with RMB64,000 million loans outstanding with us (including discounted bills), accounting for 80.50% of the balance of loans. The Group continued to grant loans principally to quality customers with sound credit record, with customers with a credit rating of AA and above accounting for 59.81% of its outstanding loans (including discounted bills). As regards industries which are subject to macro-economic control by the country, the balance of loans to the real estate sector amounted to RMB12,200 million, RMB2,000 million or 14.08% down from the previous year.

The product lines of corporate banking had also been gradually refined. With reference to the requirements of the "Three Measures and One Guideline" of the CBRC, the Bank had revised and refined its Measures for the Administration of Fixed Assets Loans (《固定資產貸款管理辦法》), Measures for the Administration of Working Capital Loans (《流動資金貸款管理辦法》) and relevant operational regulations. Meanwhile, the Bank gave full consideration to market needs. Apart from optimizing Measures for the Administration of Business Property Loans (《經營性物業貸款管理辦法》) and Measures for the Administration of Corporate Deposits (《單位存款管理辦法》), the Bank also devised new regulations such as Measures for the Administration of Domestic Factoring Business (《國內保理業務管理辦法》) and Measures for the Administration of Pledge and Credit Extension in Respect of Floating Assets (《浮動資產抵押授信業務管理辦法》) for four of its new businesses, which will further perfect the product lines of the Bank's corporate banking business.

The setting up of the position of corporate customer manager started to take effect. Since the launch of the corporate customer manager mechanism in July 2009, the Bank established a team of corporate customer managers and improved their overall quality by stepping up efforts in their education and training whilst strengthening the management on the admission and exit criteria as well as assessment of these managers, thereby increasing the number of corporate customer managers, improving their comprehensive quality and facilitating growth in its corporate banking business.

Our specialized operation for small enterprise business have gained progress as scheduled. In April 2009, the Group established Small Enterprises Loan Centre, the first credit institution which specifically serves small enterprises in Chongqing, and greater efforts were made in promoting specialized operation for small enterprise business. Platforms were set up to specifically serve small enterprises in strict compliance with the “Six Mechanisms”, and guidance and support were given to the overall development of its SME franchise bank-wide. As at December 31, 2010, the Group had established 10 sub-branches of small enterprise loan centres operating under the model of “credit factory”, actively promoted small enterprise products such as “Easy Loan” (商易貸), continued to improve and optimize the ancillary rating system of small enterprises and enhanced risk control and market analysis. As at December 31, 2010, the Bank extended loans totalling RMB30,300 million (including discounted bills) to 2009 small enterprises. While promotion of the newly developed cross-guaranteed loans was in full swing, “Trade financing” for small enterprises will soon be launched to provide better service to small enterprise customers.

The contribution of intermediary business has grown much more significant. The Group’s fee and commission income mainly includes settlement and clearance fees, agency service fees, collection and payment charges as well as fees of consulting and financial advisory. Since 2009, the Group started to provide consulting and financial advisory services to corporate customers. Hence, as at December 31, 2010, its income from financial advisory increased by RMB82 million or 956.98% to RMB91 million over the previous year, accounting for 29.43% of the total fees and commission income of the Group.

The expansion of our institutional business proved to be a remarkable success. On December 31, 2010, the Bank has commenced extensive cooperation with competent authorities of the Chongqing Municipal Government and became a bank partner of the centralized finance and treasury payment system in Chongqing (重慶市財政國庫集中支付系統), the supervisory bank regarding capital used in real estate development in Chongqing (重慶市房地產開發項目資本金監管銀行) as well as the agency bank undertaking non-taxation business in Chongqing City (重慶市非稅業務代理銀行). The Bank cooperated with the Industrial and Commercial Bank of China and executed the Cooperation Agreement on the Establishment of an Inter-bank Business Platform (《銀銀平台合作協議》), pursuant to which the Bank will undertake third party fiduciary services for funds from securities transactions and kick-start “Guimiantong” service (“櫃面通”) through the inter-bank business platform. Following the launch of social security financial services, the Group has also become the only financial services bank to handle urban and rural social pension insurance for residents in Chongqing City. In Chongqing City, 7,700,000 people have already been paid and distributed pension insurance through the bank, which generated an annual capital flow of more than RMB3,000 million. As at December 31, 2010, the balance of capital was as much as RMB1,000 million. Meanwhile, the Bank gained RMB1,800 million by undertaking insurance business and had a leading market share compared to its peers.

International banking business registered significant growth. As at December 31, 2010, the volume of international settlement handled by the Group amounted to US\$486 million. Agency sale and purchase of foreign exchange and agency foreign currency trading increased by 617.83% and 1621.29% over the previous year, respectively and aggregated to US\$289 million, thus ranking first among local financial institutions and taking the lead among certain sino-foreign-invested banks on this front. Apart from providing international settlement services such as remittances, letters of credit and entrusted collection, the Group also timely offered trade finance products such as delivery against bank guarantees, export bills of credit/ discount, forfeiting, import bills of credit, packing loan and import refinancing to cater for diverse needs of its customers. As regards exchange risk control, a stronger Renminbi had prompted the Group to decrease the holding of open positions with foreign exchange sale and purchase exposure to mitigate losses from changes in exchange rates. Meanwhile, it also actively expanded its import business to achieve coordinated development with its sale and purchase of foreign exchange. It also conducted price enquiry for each foreign exchange settlement and closed out open positions to control and ensure maximized gains from exchange.

Personal Banking Business

The table below sets forth the particulars of operating results and relevant changes of the retail banking segment.

(Expressed in RMB million, unless otherwise stated)	For the year ended December 31, 2010	For the year ended December 31, 2009	Changes (%)
Net interest income	2,590.2	1,891.6	36.93
Net fee and commission income	95.2	50.6	88.14
Operating income	2,685.4	1,942.2	38.27
Operating expense	(1,503.0)	(1,275.3)	17.85
Impairment losses on assets	(272.9)	(245.4)	11.21
Profit before tax	909.5	421.5	115.78
	As at December 31, 2010	As at December 31, 2009	
Segment assets	41,263.5	25,932.7	59.12

The retail banking business of the Group recorded a profit before tax of RMB909.5 million, up 115.78% over the previous year, representing a more remarkable contribution to the Group's profit. The steady increase of retail loans triggered growth of 38.27% and 36.93% in operating income and net interest income of the retail banking business of the Group as compared to the previous year. In addition, driven by the blistering growth of personal bank card and agent businesses, the net fee and commission income of the Group increased by 88.14% over the previous year, thus propping up a profit growth of the retail banking business for the year.

Retail Deposits

Backed by the vibrant economic growth in Chongqing, the Bank took full advantage of its exceptional regional brand recognition and strove to align its brand value services with key marketing campaigns, with an emphasis on the business promotion and sales during key business hours of peak seasons, of high-end major customers and key projects in target markets. Our efforts paid off as evidenced by an increase of 24.12% or RMB28,200 million in retail deposits over the end of the previous year to RMB145,100 million. The Bank topped the league in terms of the amount, annual growth and market share of retail deposits.

Retail Loans

The Group achieved a solid growth in retail loans, taking the lead in the local financial market in terms of stock and increment together with a sharp increase in residential mortgage loans. With a view to becoming the largest and the best local retail bank, the Group managed to further consolidate its leading presence in retail loans business on the strength of the improvement in credit structure, the innovation of retail credit products as well as the adjustment on customer and product structure.

Leveraging the specialized marketing strategies of the retail loan centers, the Group provided the customers with professional and effective retail loan services to such end as to streamline business process and standardizing operation procedures. 28 retail loan centers were set up in the year while by the end of the year, the number will reach 39. Based upon the segmented customer base and in line with the changes of market demand, the Bank provided differentiated retail loan products and services (newly-added or renovated on the existing product structure) such as the public housing fund loans, the second-hand housing mortgage loans and financing housing loans. The retail loans of the Bank increased by RMB14,497 million to RMB42,600 million, among which personal residential mortgage loans posted a growth of RMB11,150 million to RMB22,269 million. Both the increment and stock of retail loans of the Bank ranked first in the local market.

Policy loans saw a steady growth. The government-supported employment and re-employment related small amount loans, a cutting-edge policy-based loan project of the Bank, had remarkably contributed to the employment conditions of the urban and rural citizens of Chongqing and the profitability of the Company, thus leading to a win-win result with regard to economic profit and social responsibility. The policy-based loans of the Bank increased by RMB774 million to RMB2,023 million with its increment and stock in the leading position compared with other counterparts in China.

Treasury Business

The following table sets forth the major operating information and changes related to treasury business of the Group:

(Expressed in RMB million, unless otherwise stated)	As at December 31, 2010	As at December 31, 2009	Change (%)
Net interest income	1,697.4	1,293.3	31.25
Net fee and commission income	120.5	53.3	126.08
Net trading (loss)/gain	(46.2)	8.3	(656.63)
Other operating (expense)/income, net	(58.8)	5.0	(1,276.00)
Operating income	1,712.9	1,359.9	25.96
Operating expense	(400.7)	(235.9)	69.86
Net gain on disposal of available-for-sale financial assets	105.4	121.4	(13.18)
Profit before tax	1,417.6	1,245.4	13.83
	December 31, 2010	December 31, 2009	
Segment assets	164,728.5	113,576.0	45.04

Pursuant to macro policy, and capital changes in the financial market, the treasury business of the Group aims to strike a balance among the security, liquidity and profitability of its asset portfolio, which mainly covers investment in bonds (including debt instruments), discounted bills, credit asset transfer, deposits from banks and placements to banks.

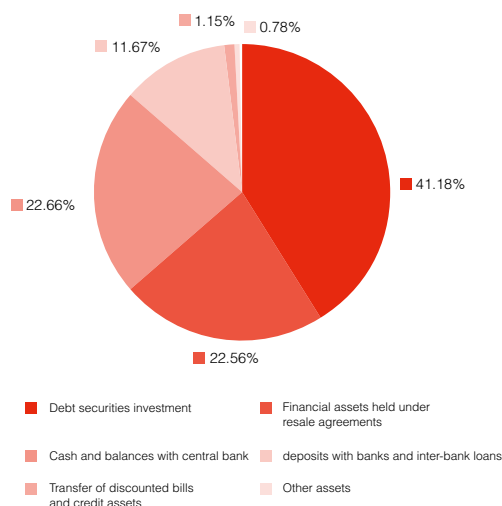
Confronted with intricate economic conditions at home and abroad and intensified uncertainties in external operating environment in 2010, the Group flexibly coped with the changes in domestic and international financial markets and the trend of market interest rate, duly adjusted its investment transaction strategy and conducted streamlined investment management. With liquidity demands and risks under control, the business maintained a steady growth as a whole. With an increase of RMB172 million or 13.83% in its profit before tax to RMB1,418 million as compared with the end of the previous year, it contributed to 35.56% of the Group's profit and became its important source of profit.

Segment Assets

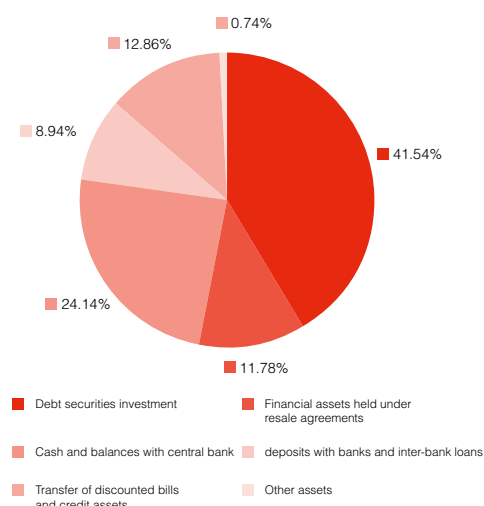
Expressed in RMB million, except for %

Items	December 31, 2010		December 31, 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt securities investments (ii)	67,838.4	41.18	47,184.6	41.54
Financial assets held under resale agreements	37,158.0	22.56	13,374.2	11.78
Cash and balances with central bank	37,321.6	22.66	27,415.9	24.14
Deposits with banks and inter-bank loans	19,220.2	11.67	10,154.4	8.94
Transfer of discounted bills and credit assets	1,888.7	1.15	14,607.9	12.86
Other assets	1,301.6	0.78	839.0	0.74
Total assets	164,728.5	100.00	113,576.0	100.00

Asset structure as of December 31, 2010



Asset structure as of December 31, 2009



As of December 31, 2010, the total size of operating assets was RMB164,730 million, representing an increase of RMB51,150 million or 45.04% as compared with the end of the previous year. In particular, debt securities investment increased by RMB20,654 million or 43.77%, cash and balances with central bank increased by RMB9,910 million or 36.13%, financial assets held under resale agreements increased by RMB23,780 million or 177.83% while deposits with banks and inter-bank loans increased by RMB9,070 million or 89.28%. Transfer of discounted bills and credit assets decreased by RMB12,720 million or 87.07%, which was mainly due to the improvement of the loan proportion of quality customer as a result of appropriate adjustment of lending structure by the Group and the scaling down of the transfer of discounted bills and credit assets.

Debt Securities Investments

Distribution of Debt Securities Investments by Holding Purpose

Expressed in RMB million, except for %

Items	December 31, 2010		December 31, 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Held-to-maturity debt securities	36,708.9	54.11	24,207.3	51.30
Debt securities classified as receivables	21,219.9	31.28	15,274.1	32.37
Held-for-trading debt securities	8,528.1	12.57	6,548.6	13.88
Available-for-sale debt securities	1,381.5	2.04	1,154.6	2.45
Total	67,838.4	100.00	47,184.6	100.00

In 2010, the Group has fully implemented the classification management of debt securities account. Apart from taking held-to-maturity debt securities as major investment target, the Group has moderately invested in certain accounts receivables and held-for-trading debt securities with reference to market conditions. As of December 31, 2010, the Group saw an increase of RMB12,500 million or 2.81 percentage points in proportion in held-to-maturity debt securities over the end of the previous year; an increase of RMB5,950 million but a decrease of 1.09 percentage points in proportion in debt securities classified as receivables over the end of the previous year, as well as an increase of RMB1,980 million but a decrease of 1.31 percentage points in proportion in held-for-trading debt securities over the end of the previous year.

Distribution of Debt Securities Investments by Credit Rating

Expressed in RMB million, except for %

Item	December 31, 2010		December 31, 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
AAA	11,537.2	17.01	8,092.0	17.15
AA	3,481.1	5.13	2,199.1	4.66
Unrated	52,820.1	77.86	36,893.5	78.19
Total	67,838.4	100.00	47,184.6	100.00

In 2010, the Group further optimized its product portfolio by moderately increasing its holding of policy bonds and credit bonds with higher coupon rates, relative high investment value and higher ratings to boost the yield of its investment portfolio. As of December 31, 2010, bonds with a rating above AA increased by RMB4,730 million and increased in proportion by 0.33 percentage point, while unrated bonds increased by RMB15,930 million but decreased in proportion by 0.33 percentage points. Unrated bonds are mainly government bonds, bank notes issued by the People's Bank of China, public sector, quasi-government bonds, certificate treasury bonds and debt instruments issued by financial institutions.

Distribution of Debt Securities Investments by Remaining Maturity

Expressed in RMB million, except for %

Remaining Maturity	December 31, 2010		December 31, 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 3 months	10,576.9	15.59	5,629.6	11.93
3–12 months	9,359.1	13.80	10,503.1	22.26
1–5 years	22,440.6	33.08	16,178.6	34.29
Over 5 years	25,461.8	37.53	14,873.3	31.52
Total	67,838.4	100.00	47,184.6	100.00

As of December 31, 2010, the Group's investments in debt securities with a remaining maturity of less than 12 months increased by RMB3,800 million but decreased by 4.80 percentage points in proportion over the end of the previous year. Our investments in debt securities with a remaining maturity of over 5 years increased by RMB10,590 million or 6.01 percentage points in proportion over the end of the previous year, mainly due to the Group's improvement in the maturity structure of the investment portfolio given a proper build-up of investments in long-term debt securities with higher coupon rates and relatively high investment value in accordance with the changes in the bond market and the reasonable allocation of the maturity and yield of its investment portfolio.

Investment in Financial Bonds

Financial bonds refer to the marketable securities issued by policy banks, banks and other financial institutions that are to be repaid pursuant to a pre-determined schedule. As of December 31, 2010, the balance of financial bonds of the Group was RMB32,700 million, which were mainly the financial bonds issued by policy banks. The table below sets out the top ten financial bonds held by the Group as at December 31, 2010.

Expressed in RMB million, except for %

Name of debt securities	Nominal value	Interest rate per annum	Maturity date	Impairment
Debt securities issued by policy banks in 2010	700.0	3.31%	2020-2-25	—
Debt securities issued by policy banks in 2005	650.0	5.27%	2020-11-29	—
Debt securities issued by policy banks in 2010	620.0	3.28%	2015-9-17	—
Debt securities issued by policy banks in 2010	600.0	4.20%	2040-9-20	—
Debt securities issued by policy banks in 2006	570.0	5.28%	2021-6-28	—
Debt securities issued by policy banks in 2006	530.0	5.78%	2016-12-19	—
Debt securities issued by policy banks in 2005	510.0	5.01%	2015-8-2	—
Debt securities issued by policy banks in 2006	450.0	5.38%	2026-4-11	—
Debt securities issued by policy banks in 2007	400.0	5.44%	2012-3-29	—
Debt securities issued by policy banks in 2010	<u>400.0</u>	<u>4.31%</u>	<u>2030-3-17</u>	<u>—</u>

Distribution channels

Physical outlets

Operating outlets are the primary distribution channels of the Bank. As of the end of 2010, the Bank had 1,763 branches of various kinds, including 1 headquarters, 1 main branch of the Bank, 43 branches, 1,718 branch outlets. Our network of branches covers all the 40 administrative districts and counties in Chongqing. We have 1,457 distribution outlets covering 1,244 townships and villages in Chongqing. We have established 306 outlets in the Chongqing urban areas. The number of branches ranked first in both county areas and urban areas. With a view to accelerating our business expansions outside Chongqing, the Bank has promoted and set up 3 Village and Township Banks, namely Jiangsu Zhangjiagang Huaxin Village and Township Bank Co., Ltd., Sichuan Dazhu Longyuan Village and Township Bank Co., Ltd. (四川大竹隆源村鎮銀行股份有限公司) and Yunnan Dali Haidong Village and Township Bank Co., Ltd. (雲南大理海東村鎮銀行有限公司) in 2010, and all of them are 51% owned subsidiaries of the Bank.

The Bank has strategically developed distribution channels, optimized the layout of outlets and stepped up restructuring to improve its service coverage, service capabilities and operational efficiency. In 2010, the Bank had reallocated 75 existing branches and refurbished 132 existing branches, resulting in a significant improvement in the overall appearance of outlets.

Self-service banking

In order to expand the scope of customer services and provide customers with more convenient services, the Bank had newly established two 24-hour self-service centres in 2010, and the number of ATMs and multimedia inquiry machines increased to 1,089, among which the number of ATMs increased by 284 units to 850 units over the end of the previous year and multimedia inquiry machines increased by 155 units to 239 units over the end of the previous year.

E-banking

In 2010, the Bank's e-banking business attached high importance to channel construction, continuous improvement in the service flow and increase of product function. Adhering to its "Safety First" principle, the Bank has steadily developed its business with growing customer satisfaction.

On March 31, 2010, the Bank officially promoted corporate internet banking service in public. As of December 31, the total number of corporate internet banking customers reached 879 and financial transactions cumulated to 51,743, with an aggregate transaction amount up to RMB15,994 million. Telephone banking business, on the other hand, maintained sound momentum. We have provided 7,073,300 times of services for our customers per year, representing an increase of 18.92% over the beginning of the year, and the average response rate and average speed of connection of our operator assisted services were 92% and 2 seconds, respectively, which were far above industry average. The development of SMS banking was rapid with gratifying growing momentum. As of December 31, the number of accounts using SMS bills totalled 487,400, representing a growth of 270.93% over the beginning of the year.

We have continuously pushed ahead with the building of electronic banking channels, further optimized service flows and strengthened the functions of channels. As to corporate internet banking, we have successively introduced functions such as call deposits, group capital management, inter-link services between banks and enterprises (銀企直聯) and e-billing subsequent to the launch of basic functions including transfers inside and outside the banks, bulky transfer, transfer appointment, time deposits as well as payment and reimbursement agency since its inception. We have entered into an internal trial operation in respect of personal internet banking, which include major functions such as enquires, transfers, payments, credit cards, time deposits and internet payment, by the end of August. We have also advanced the construction of mobile phone banking and entered into a trial stage in the mid December. The various improvements we made to the telephone banking system have enabled us to provide more comprehensive, speedy and customized services.

In developing its internet banking business the Bank has engaged a first-class professional third party, a security company, to conduct a comprehensive safety consulting and assessment to ensure that the construction is in strict compliance with the safety requirements stipulated by regulatory authorities. By adopting advanced safety security technology, we have established a professional safety team for our internet banking, formulated strict management measures and safeguarded the safety development of the entire Internet banking business. Meanwhile, we have obtained "Online Regional Commercial Bank with the Best Risk Prevention in 2010" (「2010年區域性商業銀行網上銀行最佳網銀安全獎」) issued by the China Financial Certification Authority (中國金融認證中心), reflecting industrial recognition of the Bank's internet banking business.

Bank Card

With improvement in the quality of cards issued, our bank card business experienced rapid development. By the end of 2010, the number of the total inventory of debit cards of the Bank amounted to 7,571,000, representing an increase of 1,748,700 as compared with that in the end of the previous year. In particular, an additional 1,516,900 Jiangyu Xiangqing Card had been issued, representing a sharp increase to 3,031,600 by the end of the year. The number of the inventory of credit cards amounted to 28,500, representing a growth of 27,600 over the beginning of year. As the issue number continued to grow, we achieved cost-efficiency in business. Spending through debit cards amounted to RMB15,995 million for the entire year, up 132% over the same period of the previous year while a fee income of RMB12.1972 million was generated from spending. Spending through credit cards, on the other hand amounted to RMB303 million, generating a fee income of RMB1.1999 million. Our balance of loans and interest income amounted to RMB96.4452 million and RMB1.185 million, respectively, thus maintaining our sound asset quality.

Information technology

Reforming the main device of our core business to secure the stable operation of our business system

To manage the ever-increasing data of the Bank more effectively, we began to upgrade and reform the construction of the main device of our core business in 2010 to fundamentally resolve the pressure caused by growth in accounts and business volume. We have purchased the IBM Powper 770 mainframe system which is almost 10 times more efficient than the original mainframe system to replace the original mainframe system. The reform of the main device of our core business will benefit our business development and facilitate the promotion of personal internet banking, 24-hour services and the processing of intermediary businesses.

Building an advanced technology system to push ahead with business exploration and innovation

Adhering to the principle of “science, availability, applicability and perspectiveness”, the Bank has developed consolidated and large-scale preliminary projects for the establishment of a brand new framework for its application system, which focuses on products, enhances risk management and strengthen market competitiveness. The project involves the construction of an enterprise service bus (ESB), new integrated counter system, and unified payment platform and authentication system. Based on the enterprise service bus (ESB), we have realized a flexible and transparent IT framework that encourages product innovation and business development with local characteristics.

Putting greater efforts in technological research and development to improve risk control capability against financial risks

To guard against financial risks and internal incidents, the Bank strictly observed the guidance of “implementing regulations by virtue of strong technological means and supervision” and promoted the risk management concept of “strict technological restrictions”. To this end, modern information technology means were actively adopted and research and development were conducted on various application systems to renovate operational procedures and instill stronger resilience against financial risks. First of all, the Bank has developed a remote, centralized and authorized management system and made use of images and computer network technology to restructure the processing procedures of its authorized business. For authorized businesses of counters that can be subject to centralized remote management and exposed to risks, the Bank centralized the collection procedures of their authorized business from bottom to top. Moreover, the Bank has developed a centralized operational processing system, consolidated human resources, prevented operational risks and completed the reform of non-cash business flow of counters, realizing the centralized collection procedures of non-cash business flow of counters. Besides, the Bank has kicked off the construction of phase II of its credit management system. According to the development requirements of the Basel II Accord Framework Agreement (巴賽爾新資本協議框架) and our credit risk management, we provide advanced credit risk management technological platform and tools through the consolidation of flows, data and models.

Stepping up the building of application systems to boost the supporting capacity of information technology

The Bank has accelerated the centralized payment of personal Internet banking, mobile phone banking, POS, e-billing and municipal finances (市財政) and the construction of electric channels for business including Wanzhou three gorges power and OTC third-party depository services, and enriched the product mix of intermediary business, in order to provide full-range service to our clients. Meanwhile, the Bank has also further improved the management systems of finance, human resources, performance appraisal and OA, satisfying our needs in respect of internal management, decision analysis and information disclosure.

Tightening control on information safety through more aggressive infrastructural investment

To ensure operational safety of its information system, the Bank continued to increase its investment in infrastructure. The Bank has enhanced the construction of production plant rooms and completed corresponding expansion and reconstruction work, which ensured rapid development of the Bank's information system in the next three to five years. Meanwhile, the Bank has strengthened internal supervision and safety management and completed the installment and testing of an intranet intrusion prevention system bank wide. Entering into a stage of optimization of its supervision and control strategy, the Bank has strengthened the supervision and control of internet and enhanced the safety of its entire network. By putting a desktop security management system (桌面安全管理系統) in place, the Bank has also improved its safety management on information systems.

EMPLOYEES AND HUMAN RESOURCES MANAGEMENT

Basic Information on Employees

As of the end of 2010, the Bank had 12,759 regular employees, 5,107 of whom held Bachelor's degree or above representing approximately 40.03% of all our regular employees. In addition, we had 1,846 internally retired employees, 3,745 retired employees and 1,719 dispatch workers.

Overview of Human Resources Management

Centered on the strategic plan for development, the Bank continued to increase human resources and personnel investment in key areas and important business scopes to fully satisfy various needs from key projects with strategic significance for human resources, kept on optimizing the basic system for human resources management to further strengthen standard management and achieve efficient operation and proceeded with the development of the human resources management system which was successfully established and came into use, helping improve the computerized management of human resources.

For remuneration management, the Bank adopts a performance-based remuneration system with the fulfilment of the Bank's strategic objectives as a major factor in performance evaluation, so as to make sure that employees obtain reasonable income while the Bank accomplishes its strategic objectives. In 2010, we continued to implement throughout the Bank a unified policy on remuneration and benefits management, increased the portion of remuneration for management personnel, professional and technical personnel, key business personnel and central positions, introduced the evaluation based on key performance indicators, and improved the market-oriented incentive and regulating mechanism on an ongoing basis.

Training

The Bank attaches great emphasis to employee training. In order to facilitate the strategic transformation and the rapid business development, the Bank organised multi-channel employee training on a continuous basis at different levels and by classifications. Cooperation with educational agencies of colleges and universities and external training centres further promoted the development of management personnel, professional personnel and key personnel; we launched large-scale training programs for all our employees through the online learning system E-learning. In 2010, the Bank carried out 2,137 off-line training programs for 101,400 employees and provided on-line training for 254,300 employees through the online learning system, with training coverage ratio reaching 100%.

FINANCIAL BUSINESS IN COUNTY AREA

The banking business in County Area has been a long-term strategic focus, and also one of the Group's major sources of revenues. The Group provides diversified financial services for customers in County Area through 31 branches located in County Area and their 1,457 distribution outlets as well as three village and township banks. During the reporting period, the Group brought into full play its advantage in interactive linkage between urban and rural areas (城鄉聯動優勢), deepened internal reforms, stimulated innovation in financial services, kept on increasing the total financial supply in County Area, leading to the rapid growth of financial services in County Area. As at December 31, 2010, the loan balance of the banking business in County Area amounted to RMB54,876 million, representing an increase of RMB11,018 million or 25.12% over the end of last year, non-performing loan ratio stood at 4.32%, a decrease of 2.88% over the end of last year; the deposit balance amounted to RMB137,020 million, an increase of RMB29,838 million or 27.84% over the end of last year.

INTERNAL MECHANISM REFORM

Organisational Structure

The Group set up County Area Banking Commission headed by senior management. It is responsible for formulating strategic plans for the overall development of County Area Banking Business, management policies and operation standards. County Area Banking Department was established to implement decisions on County Area Banking business made by County Area Banking Commission and provide professional operation and management for County Area banking business by coordinating with relevant departments, County Area Banking Department has three centres under it, namely "financial service centre for farmers, financial service centre of agriculture industrialization, and Sannong Financial Product Planning and Developing centre", which are responsible for policy studies, system formulation, research and development of products, customer marketing and credit management.

Credit Management

In 2010, the Group revised systems such as management measures, operation standards and authorisation of credit business, and streamlined the business process of Sannong credit business. We arranged special staff to examine and approve loans, established a team of customer managers and stepped up efforts in investigation, review and examination of loans of County Area in a bid to improve efficiency and tighten up management.

Assessment and Incentives

We further improved the comprehensive assessment system of branches in County Area, formulated separately the credit plan for County Area banking business, offered more incentives and strengthened the assessment, and kept on increasing the resource contributed to County Area credit.

CORPORATE BANKING BUSINESS IN COUNTY AREA

During the reporting period, centered on the key banking businesses in County Area such as agriculture industrialization, countryside urbanization, commodity circulation of County Area, infrastructure of the countryside, small and medium-sized enterprises of County Area, specialized farmers' cooperative, the Group continued to, with leading enterprises in the industry as its main target customers, tighten classified management of corporate customers, strive to foster core customer groups and energetically intensify marketing efforts. For flagship companies of the industry, we developed integrated banking services plans, improved our banking services, consolidated and deepened the cooperative relations between banks and enterprises.

As at December 31, 2010, the corporate loan balance of the Group's banking business in County Area stood at RMB31,413 million, representing 39.49% of the corporate loan balance of the Group, up RMB3,808 million or 13.79% over the end of last year.

PERSONAL BANKING BUSINESS IN COUNTY AREA

During the reporting period, the Group devised and implemented special marketing plans in a bid to drive the growth of personal banking business in County Area. Targeting at high-end farmers in County Area, individual and private business owners, farmer-entrepreneurs and mid-and-high-end premium customers among urban and rural residents, we vigorously developed personal products for specific areas, launched loans secured by rural residential housing on a trial basis, developed loans for farm produce preservation guarantee, mortgage loans for agricultural machinery, secured loans for the Two Wing Farming Household RMB10,000 Net Income Increase Project to satisfy diversified credit needs in County Area.

As at December 31, 2010, as the only bank in Chongqing offering the new type of old-age insurance services in rural areas, the Group carried out social old-age insurance agency services for urban and rural residents in 31 districts/counties throughout the city, with a coverage of 7.70 million people. Departments of finance and social insurance of the city and district/county opened 95 social insurance accounts with the Group, with the capital balance of RMB985 million. In 2010, the number of individual pensions withheld by the Group amounted to 6.05 million, totalling RMB1,390 million; the number of individual pensions paid by the Group as an agent amounted to 18.69 million, totalling RMB2,321 million. These services provide the Group with an extensive customer base and go a long way towards stabilizing customer resources and facilitating the development of our businesses.

The Group stepped up its efforts for the construction and overall arrangement of the electronic channels in County Area and vigorously marketed the Jiangyu Card and Jiangyu Xiangqing Card. As at December 31, 2010, the Group owned 539 ATM machines and 168 multi-media enquiry machines in County Area; issued 5.9985 million debit cards and 21,300 credit cards in County Area, representing 79.23% and 75% respectively of those issued by the Bank. With the electronic equipment put in place and the number of cards increasing, the Group is well poised to keep on expanding the customer base in County Area and increase the penetration of banking business in County Area, and build good business relationship with customers.

As at December 31, 2010, the personal loan balance of the Group's banking business in County Area stood at RMB26,923 million, representing 63.20% of the personal loan balance of the Group, up RMB8,427 million or 45.56% over the end of last year.

Summary of Information on Geographical Segments

When information is prepared based on the geographical segments, total operating income is allocated in accordance with the locations of branches recording gains. The table below sets forth the total operating income attributable to county area branches and urban area branches for the periods indicated.

Expressed in RMB million	For the year ended December 31					
	2010			2009		
	County Area	Urban Area	Total	County Area	Urban Area	Total
Net interest income	2,002.8	5,499.0	7,501.8	1,883.0	3,591.5	5,474.5
Net fee and commission income	103.4	182.4	285.8	91.4	45.3	136.7
Net trading gain (loss)	0.0	(46.2)	(46.2)	0.0	8.3	8.3
Other operating income, net	39.0	(35.8)	3.2	44.4	12.9	57.3
Total operating income	2,145.2	5,599.4	7,744.6	2,018.8	3,658.0	5,676.8
Internal transfer of income and expense	1,972.7	(1,972.7)	0.0	1,549.5	(1,549.5)	0.0
Gain after adjustment	4,117.9	3,626.7	7,744.6	3,568.3	2,108.5	5,676.8

As of December 31, 2010, the operating incomes of County Area and Urban Area accounted for 53.17% and 46.83% respectively of the total operating income, compared with 62.86% and 37.14% respectively as of December 31, 2009. The change in percentages of County Area and Urban Area of the total operating income reflected the Bank's strategy of consolidating its strongholds in Urban Area while maintaining its leading position in County Area. As of December 31, 2010, the operating income of the County Area segment was RMB4.118 billion, up 15.40% over the same period of 2009. Such increase was driven by the growth of net interest income, fees and commission income and internal transfer of income and expense. As of December 31, 2010, the operating income of the Urban Area segment was RMB3.627 billion, up 72.00% over the same period of 2009. Such increase was driven by the rapid growth of net interest income and fees and commission income.

Risk Management

The Bank had further improved its risk management system in 2010. Guided by the New Basel Capital Accord and in compliance with the requirements of CBRC in “Guidelines for the Establishment of the Risk Management System of Small and Medium-sized Rural Financial Institutions” (“農村中小金融機構風險管理機制建設指引”), the Bank stepped up efforts in the cultural and organizational construction of risk management system, refined various policy guidelines and procedures of risk management as well as expedited the development and application of risk management instruments, with an aim to ensure the capital adequacy, propping up its asset quality and strengthening the comprehensive risk management capability gradually.

The Bank promulgated the three-year plan for the development of a comprehensive risk management system, which specified the medium- and long-term strategies and targets, detailed projects, approaches and their yearly implementation schedule in the development of a comprehensive risk management system.

The Bank strived to establish a stringent and effective internal control system. Grounded on the analysis and evaluation of existing internal control conditions, the Bank categorized operation and management activities into 6 levels and 830 activity items by resorting to instruments such as process management for thinking and activity analysis, thus constituting a systematic and hierarchical “internal control system framework” which was designed to cover more than 530 internal control documents under five levels, namely the “internal control management outline”, “policies/basic policies”, “management approaches/management regulations”, “operation instructions/rules” and “workplace documents”.

Risk Management Structure

The Bank, leveraging its mature risk management structure, managed to set up a comprehensive risk management system, which was featured by “centralized management, matrix distribution, all-round coverage and full participation”. Such system included the decision-making sector comprising the Board, senior management and specialized committees, the executive sector comprising the risk undertaking and risk management departments and the supervisory sector comprising the supervisory committee and the internal audit department. Besides, the Bank also established the risk management departments in the head office and branches to carry out bank-wide risk management policies effectively.

The Board and the risk management committee thereunder conducted bank-wide management over various risks by means of considering and revising the strategies, policies and targets for bank-wide risk management, verifying risk capital allocation and the capacity of overall risk tolerance, evaluating the operation of management and bank-wide risks on a regular basis, making recommendations on improving bank-wide risk management system and the internal control system as well as reviewing major risk incidents and transactions.

The senior management was responsible for the organization, supervision and inspection of implementing the risk management policies and rules determined by the Board. Two decision-making specialized committees namely the credit approval and risk treatment committee and asset and liability management committee were established under the governor in this regard. Under the leadership of senior management, the risk management department managed to coordinate the bank-wide risk management work, which involved taking the lead in coordination of the establishment and refinement of the bank-wide risk management system, facilitating the construction of the fundamental environment for risk management and the research and application of risk management tactics, as well as reporting to the risk management committee and senior management on the monitoring and measurement of various risks and the handling of risk incidents in coordination with relevant departments. In addition, operation and management departments fulfilled their responsibilities regarding risk management such as setting up risk management departments in all the branches and taking charge of the implementation of risk management regulations and relevant reporting work.

The Bank pressed ahead with the “two-line” mechanism in risk reports. All business lines and departments should report the risk information in written form to responsible branch leaders and deliver the reports to the risk management department in the head office, which would further analyze all kinds of collected risk information and accordingly produce written reports to branch presidents, the president and separately to the risk management committee in particular. All branches should analyze their collected risk information and accordingly deliver written reports to all business lines and risk management departments in the head office.

Credit Risk Management

Credit risks refer to the risk that the borrower of the Bank or the other party’s litigant fails to fulfill the corresponding responsibilities in compliance with contracted provisions. The perceivable credit risks of the Bank mainly lie in loan portfolio, investment portfolio, guarantees and other payment undertakings.

In 2010, the Bank forged ahead with its credit risk management from perspectives such as organization and structure, credit approval, system construction, authorized management, market access, application of instruments, post-loan management and recovery of non-performing loans.

Backed by a “comprehensive, intensive and matrix” risk management structure, the Bank established its credit risk management system, which boasted clear division of responsibilities, “two-line” reporting mechanism and “four frontiers” in business operation departments, line management departments, risk management departments and internal audit departments, thus the entire procedures of credit operations, i.e. consumer investigation, credit rating, loan appraisal, loan review and approval, loan distribution, post-loan monitoring and recovery of bad assets, were under credit risk control.

The Bank refined its credit policies and systems. On the strength of internal control system construction and the implementation of new policies issued by regulatory authorities, the Group revised and refined, during the year, the systems and rules of fixed asset loans, working capital loans, group customer credit line and associated transaction management, drafted the handbook of credit services and the guidebook of the core business in personal business loans as well as completed the all-round training for its staff, boosting the compliance with regulations in credit businesses.

The Bank enhanced differentiated authorization management. In light of the conditions of regional economy, internal control management and profitability, the Bank established a scientific hierarchical delegation operation system in which the Chairman gave authorization to the governor; the governor transferred the authorization to the competent departments in the head office and branches while the branches once again transferred its authorization to competent responsible departments and divisions.

The Bank endeavored to renovate the credit approval system with tightened control on the approval authority over the issuance of corporate loans. Besides, it randomly chose the person in charge of credit approval and pushed forward with video loan approval. Meanwhile, it set up full-time approval teams and designated full-time loan approval positions at branches, so as to promote the new approval mode featuring expert loan approval of the loans for large and medium-sized enterprises and specialized loan approval of loans for small enterprises and personal loans and regulate the loan distribution and withdrawal.

The Bank exerted scientific control over the directions and timing of credit issuance. Taking into account the macro economy and regulatory requirements, the Bank classified instructions and guidelines on industry risks in respect of credit extension factors such as the industries, products, customers and regions specified the targets, tasks and major area of extension and withdraw for its credit restructuring. The Bank emphasized on supporting prime SME enterprise customers and “Sannong” business, facilitated the adjustment of credit and loan structure in key industries including the real estate industry, the manufacturing industry and the whole-sale and retail industry and set stringent restrictions on capital investment to industries with excess production capacity. In addition, it formulated the credit access standards for the financial industry to tighten the control over the credit access in this regard.

The Bank enhanced post-loan management. For the purpose of early risk detection and control, the Bank supervised and instructed on the duly implementation of post-loan management rules, strict post-loan regular inspection and long-term tracking. The Bank set up monitoring ledgers for large-amount loans, which gave warnings on a quarterly basis. It also enhanced risk tracking of interested loans through risk investigation on real estate loans and loans for government financing platform. In order to press ahead with the appraisal of the recovery of non-performing assets, the Bank linked it to job promotion and salary distribution.

The Bank promoted the use of quantitative instruments of risk management. It established a differentiated rating system for segmented customer groups. In addition, it designed a loan-to-loan migration model to dynamically reflect the loan's quality migration, maturity and recovery on a loan-to-loan basis. It managed to carry out pressure testing work periodically by virtue of improved pressure testing scheme and the establishment of pressure testing teams. During the reporting period, the Bank conducted two pressure tests regarding loans to the real estate industry and relevant industries, which served as a significant reference for the management's decision-making and a more proactive measure in risk management.

The Bank basically completed the renovation on phase 2 of credit management system, which provided advanced credit risk technical platform and instruments through the integration of procedures, data and models.

Major Regulatory Ratios

Main Regulatory Ratios	Regulatory Ratios	2010 December 31	2009 December 31	2008 December 31 (%)
Loan concentration ratio for the largest single borrower (%)	≤10%	4.94	8.10	28.73
Loan concentration ratio for a single group borrower (%)	≤15%	5.05	8.19	28.73

Borrower Concentration

The following table sets forth the loans to our ten largest single borrowers, all of which were performing at the date.

(in millions of RMB, except percentages)	Industry	As of December 31, 2010	
		Amount	Percentage of the total amount of loans (%)
Borrower A	Water, Environmental and public utility management	1,220.0	1.00
Borrower B	Water, Environmental and public utility management	1,195.0	0.98
Borrower C	Water, Environmental and public utility management	1,170.0	0.96
Borrower D	Water, Environmental and public utility management	1,100.0	0.90
Borrower E	Manufacturing	850.0	0.70
Borrower F	Real Estate	850.0	0.70
Borrower G	Construction	819.0	0.67
Borrower H	Residential Services and Other Services	800.0	0.65
Borrower I	Manufacturing	797.4	0.65
Borrower J	Water, Environmental and public utility management	770.0	0.63

Liquidity risk management

Liquidity risk refers to the risk of being unable to obtain adequate cash flow at a reasonable cost to meet reasonable assets demand or perform the due debt obligations.

The target for the Bank's liquidity risk management was to maintain proper liquidity to secure the payment and settlement in accordance with regulatory requirements; meanwhile promoted the efficient utilization of the capital by making full and rational use of the capital.

Driven by the external regulatory requirements and the internal management demands, the Bank gradually improved the liquidity management system through the formulation of the bank-wide liquidity management rules and the clear-cut duty division of the liquidity management departments in 2010. It also refined the liquidity risk control measures through diversified methods of liquidity risk management such as monitoring the key liquidity ratio, measuring the data of the liquidity gaps and the term gaps and building the liquidity risk pressure testing mechanism.

As at the end of December, other than core liabilities ratio, all main indicators reflecting the Bank's liquidity conditions met regulatory requirements. The Group increased the amount of core liabilities by adjusting its deposits structure, and improved core liabilities ratios through measures such as reducing short-term non-core liabilities derived from the capital market, such as financial assets sold under repurchase agreements and deposits from banks. The indicator as at the end of December increased by 3.55% as compared to the end of December in 2009 to 56.10%, thus being closer to regulatory standards.

Liquidity Risk Analysis

The trend of the PBOC's monetary policy shifted from being moderately loose to being stable in 2010. The hike of the reserve ratio and interest rate in the second half of the year entailed the volatility in the capital market, which added to the difficulty of liquidity management. The Bank aimed to ensure the balance among the liquidity, safety and efficiency by virtue of the strengthened management of pricing and maturity of deposits and loans, flexible asset allocation, rationalized capital investment, optimized assets and liabilities structure and proper terms for respective credit funds.

The Bank appraised the liquidity risk conditions by means of liquidity gap analysis. At the end of December 2010, the liquidity gap analysis of the Group is as follows:

Undiscounted contractual cash flows categorized by contractual maturities

The Group

	December 31, 2010							Total RMB million
	Past due/							
	Undated RMB million	On demand RMB million	1 month RMB million	1–3 months RMB million	3–12 months RMB million	1–5 years RMB million	Over 5 years RMB million	
Net position of assets and liabilities	<u>36,110.1</u>	<u>(99,816.5)</u>	<u>3,464.1</u>	<u>(7,376.3)</u>	<u>(25,641.8)</u>	<u>72,866.4</u>	<u>84,215.7</u>	<u>63,821.7</u>

The Bank

	December 31, 2010							Total RMB million
	Past due/							
	Undated RMB million	On demand RMB million	1 month RMB million	1–3 months RMB million	3–12 months RMB million	1–5 years RMB million	Over 5 years RMB million	
Net position of assets and liabilities	<u>36,090.7</u>	<u>(99,725.7)</u>	<u>3,403.8</u>	<u>(7,377.2)</u>	<u>(25,795.4)</u>	<u>72,860.4</u>	<u>84,215.6</u>	<u>63,672.2</u>

The Bank

	December 31, 2009							Total RMB million
	Past due/							
	Undated RMB million	On demand RMB million	1 month RMB million	1–3 months RMB million	3–12 months RMB million	1–5 years RMB million	Over 5 years RMB million	
Net position of assets and liabilities	<u>23,608.8</u>	<u>(56,520.4)</u>	<u>11,586.7</u>	<u>(11,051.3)</u>	<u>(16,294.3)</u>	<u>42,896.8</u>	<u>31,883.7</u>	<u>26,110.0</u>

Note: please refer to “Notes to Consolidated Financial Statements: 49. Financial Risk Management. Liquidity Risk.”

As at the end of December 2010, the accumulated gap of various maturities of the Group was RMB63,820 million, an increase of RMB37,710 million over the previous year. Despite the negative gap for repayment on demand of RMB63,710 million, the Group enjoyed a stable funding source with its strong and expansive deposit customer base and the relatively high proportion of core demand deposits.

Market risk management

Market risk is risk of the adverse changes in the market prices (including the interest rate, exchange rate, commodity price and the stock price) incurring losses to the Bank's balance-sheet and off-balance-sheet businesses.

In 2010, the Bank formulated rules and procedures including market risk management rules and the basic regulations of financial market operations, revised the rules over the management of bonds, notes and finance and other businesses and determined the responsibilities for relevant departments, gradually setting up an all-round and long-term market risk management system. The market risk management of the Bank saw a remarkable improvement as the Bank applied models of sensitivity analysis and gap analysis in the measurement and analysis of market risks, accelerated the construction of the information system of bonds and notes in this regard and specified market risk reporting methods and procedures.

Interest Rate Risk Analysis

The steady rise of market interest rate since 2010 gradually amplified the impact of re-pricing of interest rate sensitive assets and liabilities. The Bank, with an keen eye on changes in macro monetary policy and domestic and foreign financial markets, took effective measures to strengthen the research and analysis on the trend of interest rate and exchange rate, improve the management of interest rate pricing, duly adjust the pricing of funds and control the fall of loan interest rates and interest costs, with a view to propping up the pro-activeness of risk management and ensuring the sustained growth of the Bank's profit and market value.

The structure of the Bank's interest rate risk gap on the contract re-pricing date or maturity date (whichever was earlier) is as follows:

The Group

	As at December 31, 2010						
	Within					Non-interest-	Total
	1 month	1-3 months	3-12 months	1-5 years	Over 5 years	earning	
RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Cash and balances with central bank	35,027.4	—	—	—	—	2,294.3	37,321.7
Deposits with banks and other financial institutions	9,787.4	4,686.8	2,046.0	700.0	—	—	17,220.2
Placements	—	—	—	2,000.0	—	—	2,000.0
Financial assets held for trading	—	—	—	—	482.2	—	482.2
Financial assets designated as at fair value through profit or loss	3,709.8	1,566.1	2,770.1	—	—	—	8,046.0
Financial assets held under resale agreements	17,139.9	9,230.5	10,787.6	—	—	—	37,158.0
Loans and advances to customers	74,694.1	5,450.8	30,736.3	4,789.6	1,443.2	—	117,114.0
Available-for-sale assets	—	—	—	240.8	1,140.7	—	1,381.5
Held-to-maturity investments	1,099.9	1,499.7	1,578.4	9,557.8	22,973.0	—	36,708.8
Debt securities classified as receivables	1,945.5	755.9	5,010.6	12,642.0	865.9	—	21,219.9
Other financial assets	—	—	—	—	—	1,955.0	1,955.0
Total financial assets	143,404.0	23,189.8	52,929.0	29,930.2	26,905.0	4,249.3	280,607.3
Deposits from banks	7,803.8	2,708.0	1,200.0	—	—	—	11,711.8
Financial liabilities designated as at fair value through profit or loss	—	—	444.8	—	—	—	444.8
Financial assets sold under repurchase agreements	18,104.4	5,734.4	11,923.8	—	—	—	35,762.6
Due to customers	110,247.2	21,828.0	59,280.5	14,027.5	179.8	—	205,563.0
Debt securities issued	—	—	—	—	2,300.0	—	2,300.0
Other financial liabilities	—	—	—	—	37.9	4,051.3	4,089.2
Total financial liabilities	136,155.4	30,270.4	72,849.1	14,027.5	2,517.7	4,051.3	259,871.4
Net position of assets and liabilities	7,248.6	(7,080.6)	(19,920.1)	15,902.7	24,387.3	198.0	20,735.9

The Bank

	As at December 31, 2010						Total RMB million
	Within					Non-interest- earning RMB million	
	1 month RMB million	1-3 months RMB million	3-12 months RMB million	1-5 years RMB million	Over 5 years RMB million		
Net position of assets and liabilities	<u>7,246.2</u>	<u>(7,079.9)</u>	<u>(20,064.3)</u>	<u>15,897.5</u>	<u>24,387.3</u>	<u>197.4</u>	<u>20,584.2</u>

The Bank

	As at December 31, 2009						Total RMB million
	Within					Non-interest- earning RMB million	
	1 month RMB million	1-3 months RMB million	3-12 months RMB million	1-5 years RMB million	Over 5 years RMB million		
Net position of assets and liabilities	<u>8,274.7</u>	<u>(11,129.0)</u>	<u>(6,890.5)</u>	<u>6,061.2</u>	<u>9,847.3</u>	<u>414.0</u>	<u>6,577.7</u>

As at the end of December 2010, the accumulated gaps for all maturities amounted to RMB20,740 million, among which the accumulated gaps for all maturities of the Bank accounted for RMB20,580 million, representing an increase of RMB14,010 million from the previous year.

The following table illustrates the interest rate sensitivity analysis of the Bank on the assumption that the overall interest rate in the market moves in parallel and the management will not consider taking any risk management actions to mitigate interest rate risk:

Interest rate sensitivity analysis

In millions of RMB

Change in basis points	The Group		The Bank		The Bank	
	As at December 31, 2010		As at December 31, 2010		As at December 31, 2009	
	Changes in net interest income	Changes in equity	Changes in net interest income	Changes in equity	Changes in net interest income	Changes in equity
+100 basis points	620.1	(79.8)	618.7	(79.8)	432.9	(2.2)
-100 basis points	(620.1)	86.1	(618.7)	86.1	(432.9)	2.2

Note: please refer to "Notes to Financial Statements: 49. Risk Management. (5) Market Risk. (i) Interest Rate Risk. "

Exchange rate risk analysis

Since the Central Bank announced that it would further advance the reform of RMB exchange rate regime to strengthen the flexibility of RMB exchange rate in 2010, the RMB exchange rate against the USD appreciated steadily while the exchange rates of Euro and Yen experienced appreciation against all kinds of currencies, incurring high volatility in daily exchange rate changes. The Bank is mainly engaged in the RMB business with certain transactions related to U.S. dollars and HK dollars but seldom conducts transactions in other currencies. Most of its foreign currency transactions are valet exchange settlement and sales for the Group. During the business operations, the Bank reinforced the research and control over exchange rate risks, exerted strict control on the open position in the settlement and sale of foreign exchange, arranged the raised foreign exchange funds in a rational manner and explored the use of financial instruments to hedge against exchange rate risk.

As at the end of December 2010, the position of assets of the Group on and off the balance sheet denominated in RMB is as follows:

The Group

	As at December 31, 2010				
	RMB RMB million	U.S. dollars denominated in RMB RMB million	HK dollars denominated in RMB RMB million	Other currencies denominated in RMB RMB million	Total RMB million
Cash and balances with central bank	37,310.3	9.2	2.1	—	37,321.6
Deposits from banks and other financial institutions	7,131.5	4,175.6	5,897.2	15.9	17,220.2
Placements with other financial institutions	2,000.0	—	—	—	2,000.0
Financial assets held for trading	482.2	—	—	—	482.2
Financial assets designated as at fair value through profit or loss of the reporting period	8,046.0	—	—	—	8,046.0
Financial assets held under resale agreements	37,158.0	—	—	—	37,158.0
Loans and advances to customers	117,114.0	—	—	—	117,114.0
Available-for-sale assets	1,381.5	—	—	—	1,381.5
Held-to-maturity investments	36,708.9	—	—	—	36,708.9
Investments classified as receivables	21,219.9	—	—	—	21,219.9
Other financial assets	1,955.0	—	—	—	1,955.0
Total financial assets	270,507.3	4,184.8	5,899.3	15.9	280,607.3
Deposits with banks and other financial institutions	11,634.4	77.4	—	—	11,711.8
Financial liabilities designated as at fair value through profit and loss of the reporting period	444.8	—	—	—	444.8
Financial assets sold under repurchase agreements	35,762.7	—	—	—	35,762.7
Due to customers	205,071.1	99.5	378.8	13.7	205,563.0
Debt securities classified as payables	2,300.0	—	—	—	2,300.0
Other financial liabilities	4,089.1	—	—	—	4,089.1
Total financial liabilities	259,302.1	176.8	378.8	13.7	259,871.4
Net position of assets and liabilities	11,205.2	4,008.0	5,520.5	2.2	20,735.9

The Bank

	As at December 31, 2010				
		U.S. dollars	HK dollars	Other currencies	Total
	RMB	denominated	denominated	denominated	
	<i>RMB million</i>	<i>in RMB RMB million</i>	<i>in RMB RMB million</i>	<i>in RMB RMB million</i>	<i>RMB million</i>
Net position of assets and liabilities	11,053.5	4,008.0	5,520.5	2.2	20,584.2

The Bank

	As at December 31, 2009				
		U.S. dollars	HK dollars	Other currencies	Total
	RMB	denominated	denominated	denominated	
	<i>RMB million</i>	<i>in RMB RMB million</i>	<i>in RMB RMB million</i>	<i>in RMB RMB million</i>	<i>RMB million</i>
Net position of assets and liabilities	6,535.8	39.4	1.6	0.9	6,577.7

The following table illustrates the exchange rate sensitivity analysis of the Bank on the assumption that the spot and forward exchange rates of RMB against all foreign currencies move simultaneously and the management will not consider taking any risk management actions to mitigate exchange rate risk:

Exchange rate sensitivity analysis*In millions of RMB*

Exchange rate change	As at December 31, 2010	As at December 31, 2009
	Changes in net profit	Changes in net profit
5% appreciation	(357.4)	(1.6)
5% depreciation	357.4	1.6

Operational Risk Management

Operational risk management refers to the risk of resulting from incompleteness or faults in internal procedures, human error and system failure or external events.

Grounded on in-depth research on the regulation and management mode of operational risks, the Bank formulated operational risk management rules and promoted the full participation of the staff in the operational risk management system by strictly adhering to assessment, reward and penalty regulations. Besides, the Bank pushed forward with all-round risk investigation and prevention work by streamlining the accounting information and conducting all-round reconciliation, re-analysis of transaction flow, cross-check by all relevant authorities and achieving 100% in reconciliation over 440,000 public accounts and individual accounts with a balance or occurred amount over RMB100,000. The Bank also carried out inspection over potential sections with risk hazards such as self-service equipment management, video monitoring and management performance in line with actual conditions, beefing up the operational risk prevention in key operations areas and sections. Moreover, it regulated the management over incompatible positions with focus on tackling down the separation and imbalance between position and operation. Leveraging intensified security check on the information system, electrical equipment, workplaces and other infrastructure facilities as well as maneuvers of refined information contingency plan, the Bank guaranteed the stable operation of all businesses. Apart from that, the Bank strived to enhance support for the IT system to expedite the construction of large front platform, the post-incident monitoring center and centralized authorization projects. The Bank vigorously promoted the building of risk management culture through the provisions of education and instructions on devoting to the positions righteously. During the reporting period, the Bank conducted its operational risk management in a more centralized manner, further propping up the risk prevention and control capabilities.

Anti-money laundering

In strict compliance with the anti-money laundering and anti-terrorist financing regulatory requirements at home and abroad, the Bank duly performed its anti-money laundering reporting obligation by focusing on the report analysis of suspicious transactions and risk warnings. During the reporting period, no institutions and employees were found involved in suspicious money laundering and terrorist financing events.

Internal Audit and Internal Control

As the purpose of the Group's internal audit was to achieve effective internal control, risk management and corporate governance, the Bank carried out appraisals and evaluations on the effectiveness of internal control and risk management, the profitability of operation activities, the effects of governance programs and the economic responsibilities of major management members and proposed corresponding recommendations. The internal audit was vertically managed and relatively independent. It was mainly accountable to the Board and the audit committee and responsible for reporting to them, the supervisory committee and the senior management. The Bank also set up the audit department, four regional audit offices and 43 audit offices at branches, which discharged the management of audit work and the implementation of audit activities.

In 2010, the Bank proceeded with its internal audit work and implemented a series of supporting measures around management mode, resource allocation, program standards, technical approaches and team qualities. Furthermore, the Bank managed to improve the quality and value of audit by boosting the performance of duties and ensuring the smooth implementation of audit plans.

During the reporting period, the audit activities mainly focused on the adequacy and effectiveness of internal control, risk management and corporate governance. It organized and carried out audit projects including the annual audit on the truthfulness of financial information, the regular audit, the specialized audit on credit business, the specialized audit on capital business, the IT risk audit, the specialized audit for the decoration of newly-opened branches and the specialized audit for the resignation of key positions and personnel. Meanwhile, it conducted risk investigations in the capital settlement center of the Bank, the international business department, the business department and the branches within its jurisdiction. Particularly, the spot check on the base-level business institutions by special inspection team not merely revealed the risk hazards and loopholes, but also improved the internal control and the executive ability of risk prevention. The Board, the supervisory board and the senior management attached great importance to relevant audit results and proactively pressed ahead with the renovation and optimization of systems, procedures and the IT system, thereby facilitating the risk prevention and control among all the branches and the Bank and improving the operating efficiency and results.

In 2010, the directors of the Bank conducted an evaluation on its internal control system, including all controls that are significant, such as finance control, operation control, compliance control and control on risks management capabilities. After taking special consideration as to whether the Banks' resources, staff qualifications and working experience are sufficient in performing accounting and financial reporting, and whether staff training and relevant budget are adequate, the board is of the opinion that the internal control system is effective.

Outlook

In 2011, the global economy will be picking up slowly but China's economy will be on the track of more steady and rapid growth. As juxtaposed to a global economy troubled by problems such as trade imbalance, debt crisis, exchange rate disputes and excess liquidity, China will experience more vigorous economic restructuring, more prudent monetary policies, a market-oriented interest rate and accelerating reforms on its Renminbi exchange rate regime.

In 2011, given the rise in domestic labor costs amidst China's economic restructuring as well as mounting pressure from imported inflation under continued implementation of quantitative monetary easing policies in major developed countries worldwide, there exist great pressure on the commodity price in China. In view of the numerous factors which may drive commodity price upward, the underlying risk of inflation shall not be overlooked.

A mix of factors will keep excessive growth in credit under control in 2011, including a moderate and tight monetary policy, a stricter credit control, the cumulative effect of rising allowance as well as the tightening and deepening of austerity control over the real estate market. Higher requirements for the capital adequacy ratio, coupled with the implementation of new regulatory policies such as differential deposit reserve ratios and stronger supervision on loan-to-deposit ratios are expected to restrain expansion of bank credits.

Year 2011 heralds the start of China's Twelfth Five-Year Plan and the Bank's strategy to become one of the most competitive regional commercial banks in China. The Bank will embark on the new year to cement its leading position in county area markets, together with an unwavering commitment to expanding its city banking business and improving fund pricing and cost management to realize differentiation in development and requite the shareholders and the society with the best results.

Corporate Social Responsibility

In 2010, the Bank conscientiously undertook its social responsibility and played a significant role in “Sannong” services, poverty alleviation and social donation activities. It was acclaimed as the Best Financial Institution Providing “Sannong” Services in Chongqing (重慶最佳三農服務金融機構), Outstanding Institution Contributing to the Two Wings Farming Household RMB10,000 Net Income Increase Project (助推「兩翼」農戶萬元增收卓越貢獻機構) and the Most Socially Responsible Bank (最具社會責任銀行).

Greater efforts in supporting and subsidizing farmers. As at the end of 2010, outstanding agriculture-related loans of the Bank soared by RMB11,399 million or 29.46% from the beginning of the year to RMB50,089 million, which was 9.84 percentage points higher than the growth rate of the Bank’s total loans, signalling a more supportive credit policy for “Sannong”. Meanwhile, the “3221” project was launched, where a commitment of RMB20,000 million will be made in three years to support 2,000,000 farming households in Two Wings and increase the net income per farming household of the area by RMB10,000. By introducing new credit offerings such as the pilot loan products collateralized on farm house ownership, guaranteed loans for fresh agricultural products (農產品鮮儲保證貸款), mortgages for agricultural machinery and loans pledged by land certificates (地票抵押貸款), the Bank has developed a self-service financial means integrating “deposit, conversion and exchange” functions. The Bank had also figured out new ways to resolve the problem of difficult loan financing for “Two Wing” farmers in Fengdu, Yunyang and Xiushan.

Whole-hearted support to poverty relief. To help a village in Tongnan County get rid of poverty, the Bank extended a loan of RMB205 million to transform the region into a “Capital of Vegetables in Western China”. It also underpinned large-scale business expansion of local agricultural industrialization. To date, a 7,000-hectare vegetable base and a 1,000-hectare bamboo shoot and bamboo base have been established and almost 4,000 new job opportunities have been created, which brought great economic and social benefits to the county. Meanwhile, a RMB132 million personal loan had been granted to encourage individual businesses, retired staff, returning migrant workers and college and secondary graduates to start their own businesses. An amount of RMB1.0319 million was donated to develop poverty alleviation program for the impoverished, help to build a Hope Primary School in Yujian Village of Tai’an Town in Tongnan County (潼南縣太安鎮魚灘村希望小學), as well as rural highways and pedestrian paths in Shexing Village and Guopo Village to help unattended children in the area overcome difficulties in going to schools and resolve the transportation problems for the villagers.

Active participation in social welfare activities. It made a series of donations up to RMB7.1221 million to disaster areas such as Wenchuan in Sichuan, Yushu in Qinghai and Zhouqu in Gansu to support rehabilitation of the areas. An amount of RMB1.6992 million was donated to Xinjiang Uyghur Autonomous Region Rural Credit Union (新疆維吾爾自治區農村信用社聯合社), Qinghai Rural Credit Union (青海省農村信用社聯合社) and other affected units to help them survive the catastrophes. Support was given to Chongqing Education Development Foundation (重慶市教育發展基金會) and the “Care for Unattended Children in Rural Village” Poverty Relief Fund (“關愛農村留守兒童” 專項扶貧基金) to advance local social welfare development. An amount of RMB10.00 million will also be donated in five years to “Greening Yangtze River, Chongqing in Action”(“綠化長江重慶行動”) campaign for green causes. In 2010, the commitment made by the Bank in social welfare activities totalled RMB22.0613 million including staff donations of RMB1.3213 million, which helped the Bank establish a sound corporate image.

Changes in Share Capital and Particulars of Shareholders

MOVEMENTS IN SHARES

Unit: share, %

	January 1, 2010		Increase/(Decrease) during the reporting period						December 31, 2010	
	Number of shares	Percentage	private placement	Issuance of additional shares		Shares converted from		Sub-total	Number of shares	Percentage
				Bonus issue	capital reserve	Others	Others			
(I) Shares subject to trading restrictions										
1. Non-overseas listed shares held										
by legal persons	4,441,234,200	74.02	1,000,000,000	—	—	—	(185,509,601)	814,490,399	5,255,724,599	58.40
Including: (1) Shares held by state-owned legal person shareholders ^{1,2,3}	1,277,370,000	21.29	1,000,000,000	—	—	—	(185,509,601)	814,490,399	2,091,860,399	23.24
(2) Shares held by private legal person shareholders	3,163,864,200	52.73	—	—	—	—	—	3,163,864,200	35.15	
2. Non-overseas listed shares held										
by natural persons	1,558,765,800	25.98	—	—	—	—	—	1,558,765,800	17.32	
Including: (1) Shares held by employee natural persons	165,671,450	2.76	—	—	—	—	(17,230,730)	(17,230,730)	148,440,720	1.65
(2) Shares held by natural persons other than employees	1,383,754,460	23.06	—	—	—	—	25,225,115	25,225,115	1,408,979,575	15.66
(3) Shares held by shareholders without affirmed ownership ⁴	9,339,890	0.16	—	—	—	—	(7,994,385)	(7,994,385)	1,345,505	0.01
(II) Shares not subject to trading restrictions										
Overseas listed foreign shares	—	—	—	—	—	—	2,185,509,601	2,185,509,601	2,185,509,601	24.28
(III) Total number of shares	6,000,000,000	100.00	1,000,000,000	—	—	—	2,000,000,000	3,000,000,000	9,000,000,000	100.00

- Non-overseas listed shares of the Bank held by 13 state-owned legal person shareholders including Chongqing Yufu Assets Management Company Limited, Chongqing City Construction Investment Company and Chongqing Transport and Travel Investment Group Limited Company.
- On March 2, 2010, according to the Approval Concerning the Capital Increase in Chongqing Rural Commercial Bank Co., Ltd. by Enterprises including Chongqing City Construction Investment Company (Yuguozi No. [2010] 147) (關於同意重慶市城市建設投資公司等企業增資重慶農村商業銀行股份有限公司的批覆) issued by Chongqing State-owned Assets Supervision and Administration Commission, the Bank issued 629 million, 100 million, 271 million additional shares to Chongqing City Construction Investment Company, Chongqing Yufu Assets Management Company Limited and Chongqing Transport and Travel Investment Group Limited Company respectively by a way of private placement, totalling 1.00 billion shares.

- According to the Approval Concerning the Transfer of State-owned Shares of Chongqing Rural Commercial Bank Co., Ltd. (Yuguozi No. [2010] 627) (《關於重慶農村商業銀行股份有限公司國有股轉持有關問題的批覆》(國資產權[2010]627號)) issued by the State-owned Assets Supervision and Administration Commission of the State Council, 10 state-owned shareholders including Chongqing Yufu Assets Management Company Limited, Chongqing City Construction Investment Company and Chongqing Transport and Travel Investment Group Limited Company, before the Bank exercised the “Greenshoe” option, reduced their state-owned shares by transfer of 185,509,601 shares in aggregate to National Council for Social Security Fund of the PRC (“NSSF”). At the same time, NSSF entrusted the Bank with the public sale of these state-owned shares on the Hong Kong Stock Exchange.
- Shareholders without affirmed ownership refer to untraceable shareholders of the Bank. Share interests held by them are shares of the former rural credit cooperatives, and they have not affirmed their ownership in the shares of the Bank.

MOVEMENTS IN SHARES SUBJECT TO TRADING RESTRICTIONS

Name of shareholder	Number of shares subject to trading restrictions at the			Number of shares subject to trading		
	beginning of the year	Released during the year	Originated during the year	restrictions at the end of the year	Reason for trading restrictions	Date of release from trading restrictions
13 state-owned legal person shareholders including Chongqing Yufu Assets Management Company Limited ¹	—	—	2,091,860,399	2,091,860,399	The 1-year lock-up period since listing of H-shares (December 16, 2010)	December 16, 2011
163 private legal person shareholders including Loncin Holdings Limited	—	—	3,163,864,200	3,163,864,200	The 1-year lock-up period since listing of H-shares (December 16, 2010)	December 16, 2011
80,500 domestic natural person shareholders (including employees, natural persons other than employees, natural person shareholders without affirmed ownership)	—	—	1,558,765,800	1,558,765,800	The 1-year lock-up period since listing of H-shares (December 16, 2010)	December 16, 2011
Total number of shares	—	—	6,814,490,399	6,814,490,399		

- According to the Approval Concerning the transfer of state-owned shares of Chongqing Rural Commercial Bank Co., Ltd. (Yuguozi No. [2010] 627) issued by the State-owned Assets Supervision and Administration Commission of the State Council, 10 state-owned shareholders including Chongqing Yufu Assets Management Company Limited, Chongqing City Construction Investment Company and Chongqing Transport and Travel Investment Group Limited Company, before the Bank exercised the “Greenshoe” option , reduced their state-owned shares by transfer of 185,509,601 shares in aggregate to NSSF. At the same time, NSSF entrusted the Bank with the public sale of these state-owned shares on the Hong Kong Stock Exchange.

DETAILS OF SECURITIES ISSUANCE AND LISTING

On December 16, 2010, the Bank issued 2,000,000,000 H shares in its overseas IPO, and disposed 185,509,601 shares on behalf of the National Council for Social Security Fund of the PRC (“NCSSF”) (Note: accordingly, the existing 7,000,000,000 non-overseas listed shares of the Bank were reduced by 185,509,601 shares to 6,814,490,399 shares). A total of 2,185,509,601 H shares were listed and traded on the Main Board of the Hong Kong Stock Exchange at an offer price of HK\$5.25 per share. Upon completion of the overseas IPO, the total number of shares of the Bank was 9,000,000,000 and the paid-in capital was RMB9,000,000,000.

ISSUE OF BONDS

On December 29, 2009, the Bank issued 10-year subordinated bonds with an aggregate principal amount of RMB2.3 billion in accordance with approvals issued by the PBOC and the CBRC. These subordinated bonds were offered to members of the bonds market including insurance companies and traded on the interbank bonds market. There was no default by the Bank in respect of either repayment of the principal and interests of these subordinated bonds or any matters in connection therewith in 2010.

PARTICULARS OF SHAREHOLDINGS

At the end of the reporting period, the Bank had a total of 9,000,000,000 shares, comprising 6,814,490,399 non-overseas listed shares and 2,185,509,601 overseas listed H shares.

PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF NON-OVERSEAS LISTED SHARES/SHARES SUBJECT TO TRADING RESTRICTIONS

Unit: share, %

No.	Name of shareholder	Nature of shareholder	Total number of shares held	Shareholding percentage	Number of shares pledged or frozen	Type of share
01	Chongqing Yufu Assets Management Company Limited (重慶渝富資產經營管理有限公司)	state-owned	638,525,580	7.09	—	non-overseas listed shares
02	Chongqing City Construction Investment Company (重慶市城市建設投資公司)	state-owned	610,248,019	6.78	—	non-overseas listed shares
03	Loncin Holdings Limited (隆鑫控股有限公司)	private enterprise	570,000,000	6.33	570,000,000	non-overseas listed shares
04	Chongqing Transport and Travel Investment Group Limited Company (重慶交通旅游投資集團有限公司)	state-owned	429,636,497	4.77	—	non-overseas listed shares
05	Beijing Jiuding Real Estate Co., Ltd.	private enterprise	300,000,000	3.33	300,000,000	non-overseas listed shares
06	Laierfu Trading Co., Ltd	private enterprise	200,000,000	2.22	200,000,000	non-overseas listed shares
07	Chongqing Emperor Science & Technology Co., Ltd	private enterprise	190,000,000	2.11	60,000,000	non-overseas listed shares
08	Chongqing Tianqi Industry Management Company Limited (重慶天麒產業管理有限公司)	private enterprise	160,000,000	1.78	160,000,000	non-overseas listed shares
09	Chongqing Yerui Property Development Co., Ltd	private enterprise	150,000,000	1.67	—	non-overseas listed shares
10	Jiangsu Huaxi Group Corporation (江蘇華西集團公司)	private enterprise	150,000,000	1.67	—	non-overseas listed shares
Total			3,398,410,096	37.75	1,290,000,000	

Note: As at December 31, 2010, the aforesaid shareholding percentage of non-overseas listed shares is based on the total shares of the Bank of 9 billion. In addition, the aforesaid shares held by shareholders are pledged only and not subject to judicial moratorium.

MATERIAL INTERESTS AND SHORT POSITIONS

As at December 31, 2010, the interests and short positions of substantial shareholders (pursuant to SFO) and other persons in the H shares of the Bank as recorded in the register required to be kept under section 336 of the SFO of Hong Kong were as follows:

Name	Capacity	Number of H shares held ⁽¹⁾	% of the total issued H shares	% of the total share capital of the Bank
Nomura Holdings, Inc.	Interest of controlled corporations	160,526,000 (L)	7.35 (L)	1.78 (L)
	Interests held jointly with another person	327,826,440 (S)	15.00 (S)	3.64 (S)
Morgan Stanley	Interest of controlled corporations	327,826,440 (L) ⁽²⁾	15.00 (L)	3.64 (L)
	Interest held jointly with another person	19,268,000 (L)	0.88 (L)	0.21 (L)
AllianceBernstein L.P. Capital Research and Management Company	Interest of controlled corporations	327,826,440 (L) ⁽²⁾	15.00 (L)	3.64 (L)
	Investment manager	199,613,000 (L)	9.13 (L)	2.22 (L)
AI Nehayan Mansoor Bin Zayed Bin Sultan	Interest of controlled corporations	175,497,000 (L)	8.03 (L)	1.95 (L)
	Trustee	147,995,000 (L)	6.77 (L)	1.64 (L)
Hang Seng Bank Trustee International Limited	Trustee	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
Cheah Company Limited	Interest of controlled corporations	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
Cheah Capital Management Limited	Interest of controlled corporations	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
Value Partners Group Limited	Interest of controlled corporations	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
Value Partners Limited	Investment manager	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
Cheah Cheng Hye	Founder of a discretionary trust	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
To Hau Yin	Interest of Spouse	118,396,000 (L) ⁽⁴⁾	5.41 (L)	1.32 (L)

Notes:

- (L) — long position, (S) — short position.
- These H shares are held jointly by Nomura Holdings, Inc. and Morgan Stanley.
- These H shares are held by Value Partners Limited, which is wholly-owned by Value Partners Group Limited, which is in turn owned 28.69% by Cheah Capital Management Limited, which is in turn wholly-owned by Cheah Company Limited. The entire issued capital of Cheah Company Limited is owned by Hang Seng Bank Trustee International Limited as the trustee of The C H Cheah Family Trust. Mr. Cheah Cheng Hye is the founder of The C H Cheah Family Trust and also a director of Value partners Limited.
- To Hau Yin is the spouse of Cheah Cheng Hye and is deemed to be interested in the shares held by Cheah Cheng Hye.

SUBSTANTIAL SHAREHOLDERS OF NON-OVERSEAS LISTED SHARES OF THE BANK

As at the end of the reporting period, Chongqing Yufu Assets Management Company Limited, Chongqing City Construction Investment Company and Loncin Holdings Limited held 638,525,580 shares, 610,248,019 shares and 570,000,000 shares of the Bank respectively, representing 7.09%, 6.78% and 6.33% of total shares of the Bank respectively, and are substantial shareholders of the Bank.

Chongqing Yufu Assets Management Company Limited is a solely state-owned comprehensive assets operation and management company organized under the approval of Chongqing Municipal Government. It was established on March 18, 2004, with registered capital of the Company of RMB1,020,490,400.00. It was under direct supervision of Chongqing State-owned Assets Supervision and Administration Commission.

Chongqing City Construction Investment Company is a solely state-owned enterprise organized under the approval of Chongqing Municipal Government in April 1994 and authorized to raise and manage capital for city construction. It has a registered capital of RMB6 billion.

Loncin Holdings Limited is a private enterprise group established on March 18, 1996, with registered capital of RMB1,000 million. It has been listed among “Top 500 Chinese Enterprises” for seven years in a row.

SUBSTANTIAL SHAREHOLDERS OF OVERSEAS LISTED H SHARES OF THE BANK

As at the end of the reporting period, Nomura Holdings, Inc. held 488,352,440 H shares (long position) and 327,826,440 H shares (short position) of the Bank respectively, representing 5.42% and 3.64% of the total share capital of the Bank. It is a substantial shareholder of the Bank.

Except for the aforesaid shareholders, there were no other legal person shareholders holding more than 5% of total share capital of the Bank, nor were there any other employees or natural persons other than employees holding 5% or more of shares of the Bank.

As at the end of the reporting period, there were no substantial shareholders holding more than 10% shares (as defined under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange) of the Bank.

DATES ON WHICH SHARES SUBJECT TO TRADING RESTRICTIONS BECOME TRADABLE

Unit: share

Date	Shares subject to trading restrictions originated	Balance of shares subject to selling restrictions	Number of shares not subject to trading restrictions	Remarks	Regulatory sources
December 16, 2010	6,814,490,399	6,814,490,399	2,185,509,601	Lock-up period for H-shares	Company Law of the People's Republic of China



Corporate Governance Report

Recognising the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, the Bank is committed to maintaining high standard of corporate governance practices to safeguard the interests of shareholders and to enhance corporate value and commitment.

Since the H shares of the Bank were listed on the Hong Kong Stock Exchange on December 16, 2010, the Bank has strictly complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Hong Kong Listing Rules of the Hong Kong Stock Exchange and also most of the recommended best practices therein. The Bank strictly abides by the applicable laws and regulations, and the Hong Kong Listing Rules in respect of management of insider information.

To the best of the directors' knowledge, there is no reasonable information indicating that the Bank is or was in violation of the CG Code during the period from the Listing Date to December 31, 2010.

The Bank will continue to review and enhance its corporate governance practices to ensure that these continue to meet the requirements of the CG Code and the rising expectations of shareholders and investors.

GENERAL MEETINGS

Details of the General Meetings

During the year of 2010, the Bank held one annual general meeting and two extraordinary general meetings. Details are as follows:

- (i) On February 22, 2010, the Bank held the first extraordinary general meeting in 2010, at which the resolutions in respect of the following matters were considered and passed: the private placement proposal, amendment to the current Articles of Association, the Bank's issue of H shares and listing on the Hong Kong Stock Exchange, the conversion of the Bank into a joint stock company with limited liabilities whose shares were listed overseas, the formulation of the Bank's Articles of Association (H shares), Rules of Procedures of the Board of Directors and Rules of Procedures of the general meetings of the Bank, amendment to the Rules of Procedures of the Board of Supervisors of the Bank, an request to the general meeting for authorization to handle such issues as the private placement, the issue of H shares and the Listing.
- (ii) On April 26, 2010, the Bank held the 2009 annual general meeting, at which a number of resolutions were considered and passed, including the 2009 work report of the Board of Directors, the 2009 work report of the board of supervisors, the 2009 financial report, 2009 profit distribution plan, 2010 financial budget proposal, senior management of the Bank serving as chairmen of the board of the Village and Township Banks established by the Bank.
- (iii) On November 26, 2010, the Bank held the second extraordinary general meeting in 2010, at which the resolutions in respect of special dividends distribution to the then shareholders before the Listing, appointment of two additional supervisors and amendment to the Articles of Association for H shares were considered and passed.

The above general meetings were held in compliance with relevant legal procedures.

BOARD OF DIRECTORS

The Board's Implementation of Resolutions of the General Meetings

In 2010, the Board strictly implemented the resolutions passed at the general meetings and exercised the authorisation granted by the general meetings, earnestly implemented the resolutions regarding the Bank's issue of H shares and Listing on the Hong Kong Stock Exchange, 2009 profit distribution, 2009 financial budget for 2010, special dividends distribution to the then shareholders before the Listing, appointment of two additional supervisors and amendment to the Articles of Association for H shares.

Composition of the Board of Directors

As of December 31, 2010, the Board comprised 11 directors, including two executive directors, namely, Mr. Liu Jianzhong (Chairman of the Board of Directors, Secretary of the Party Committee) and Mr. Tan Yuansheng (President of the Bank); six non-executive directors, namely, Mr. Tao Jun, Mr. Tu Jianhua, Mr. Wang Yongshu, Mr. Wen Honghai, Mr. Gao Xiaodong and Mr. Wu Xiufeng; and three independent non-executive directors, namely, Mr. Xu Bin, Mr. Pu Yongjian and Ms. Ran Hua.

The list of directors (by category) is also disclosed in all corporate communications issued by the Bank pursuant to the Listing Rules of the Hong Kong Stock Exchange.

The Board of Directors are responsible for establishing the company management system, monitoring the Group's decision-making regarding business activities and financial strategies and results and accountable to the general meeting. The Board of Directors has delegated the management with the power and responsibilities to manage the Group. In addition, the Board of Directors has designated the Audit Committee, Nomination Committee and Remuneration Committee to perform their respective responsibilities. Details of the aforesaid committees are further described in this report.

Chairman and President

The roles and functions of the Chairman and the President are carried out by different individuals.

Mr. Liu Jianzhong is the chairman of the Board and the legal representative of the Bank, and is responsible for planning the overall strategies of the Group and leading the Board so as to ensure that the Board of Directors functions efficiently and discusses all material matters in a timely manner. Mr. Tan Yuansheng serves as the President of the Bank, and is responsible for the Group's business development and the management and operation of overall business. The President is appointed by and is accountable to the Board of Directors and discharges his duties in accordance with the Articles of Association and the authorization of the Board of Directors. The roles of the Chairman and the President are separate and their duties are clearly defined. The management takes charge of the daily operation and management.

Appointment

The term of office of directors is three years, and directors may be re-elected upon expiration of their term of office.

Operation of the Board of Directors

The Board of Directors convenes meetings on a regular basis, generally not less than four times a year, and holds extraordinary meetings when necessary. Board meetings may be convened by means of on-site conference or written resolutions. The agenda for regular board meetings are scheduled upon consultation with directors. Board papers and relevant materials are usually circulated to all directors and supervisors 14 days in advance of the board meetings. All directors maintain communication with the secretaries to the Board of Directors so as to ensure the compliance with board procedures and all applicable rules and regulations. Detailed minutes of the board meetings are kept, and minutes are circulated to all attending directors for review after the meeting. Directors will provide comments for modification after receiving the minutes. After the minutes are finalised, the secretary to the Board will circulate the minutes to all directors as soon as possible. Minutes of the board meetings are kept by the secretary to the Board, and are available for review by directors at any time. Communication and reporting mechanism has been established between the Board, directors and senior management. The President of the Bank reports his work to the Board on a regular basis, and under its supervision. Relevant senior management are invited to attend board meetings from time to time to give explanations or reply to enquiries. At board meetings, directors can put forward their opinions freely, and major decisions are made after deliberate discussions. If any director has material interests in a proposal to be reviewed by the Board, the director concerned must abstain from discussion and voting on the relevant proposal, and is not counted in the quorum of the relevant proposal.

Compliance with Model Code for Securities Transactions by Directors

The Bank has adopted, in respect of securities transactions by directors, supervisors and relevant employees, the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules of Hong Kong Stock Exchange. Having made specific enquiries, all directors and supervisors confirmed that they have complied with the Model Code during the period from the Listing Date to December 31, 2010.

No incident of non-compliance of the Model Code by the relevant employees was noted by the Bank.

Meetings of the Board of Directors

According to the CG Code, the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. A regular meeting does not include the practice of obtaining board consent through the circulation of written resolutions.

In 2010, the Bank convened 21 meetings of the Board of Directors in total, including 5 on-site meetings and 16 meetings through the circulation of written resolutions and via correspondence. Resolutions considered and passed at such meetings included those regarding outlets adjustment plan, determination of the private placement targets, purchase of wealth management products, equity pledge, auditor's report, engagement of the secretary to the Board, determination of the dividends distribution percentage for the next three years, construction and leasing of branch premises, donations and extension of engagement of accounting firms. Attendance records of the directors at meetings of the Board of Directors in 2010 are set out as follows:

Members of the Board of Directors	Number of meetings attended in person	Number of meetings attended by proxy	Number of meetings absent from	Attendance rate
Liu Jianzhong	21	0	0	100%
Tan Yuansheng	21	0	0	100%
Tao Jun	21	0	0	100%
Tu Jianhua	20	1	0	100%
Wang Yongshu	17	4	0	100%
Wen Honghai	19	2	0	100%
Gao Xiaodong	21	0	0	100%
Wu Xiufeng	19	2	0	100%
Xu Bin	19	2	0	100%
Pu Yongjian	18	3	0	100%
Ran Hua	21	0	0	100%

Independent Non-executive Directors

During the period from the Listing Date to the date of this report, the Board of Directors at all times met the requirements of the Listing Rules of the Hong Kong Stock Exchange relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

The independent non-executive directors of the Bank do not have any business or financial interests in the Bank and its subsidiaries, neither do they hold any management positions in the Bank. The independent non-executive directors of the Bank are elected for a term of three years. They are eligible for re-election as the Bank's directors but not independent directors upon expiry of the term of office.

Directors' Responsibility for the Preparation of Financial Reports

The directors acknowledge their responsibility for preparing the financial statements of the Bank for the year ended December 31, 2010.

Directors are responsible for monitoring financial reports of each accounting or fiscal period to make sure such financial reports give a true and fair view of the Bank's financial conditions, operation results and cash flows. The directors adopted and implemented the applicable accounting policies and exercised prudent and reasonable judgement when preparing financial reports for the year ended December 31, 2010.

Board Committees

There are seven committees established under the Board: the Strategic Development Committee, Risk Management Committee, Related Party Transaction Supervision Committee, Nomination Committee, Remuneration Committee, Audit Committee and Minority Shareholders' Interest Protection Committee. Compositions of these Committees are set out as follows:

(I) *Strategic Development Committee*

Chairman: Mr. Liu Jianzhong; Members: Mr. Tao Jun, Mr. Tu Jianhua, Mr. Pu Yongjian and Mr. Tan Yuansheng.

The primary responsibilities of the Strategic Development Committee include:

1. to draft the strategies and development plans of the Bank, to monitor and assess the implementation thereof and give advice to the Board of Directors;
2. to review the annual operation plans and financial budgets of the Bank and submit the same to the Board of Directors for consideration;
3. to review the reports on the implementation of the annual operation plans and financial budgets;
4. to evaluate the coordinated development of various businesses and give advice to the Board of Directors;
5. to review the plans for major organizational restructuring and structural plan and give advice to the Board of Directors;
6. to review significant investment and financing projects and give advice to the Board of Directors;
7. to make decisions on special issues as authorized by the Board of Directors;
8. to handle such other matters as authorized by the Board of Directors.

(II) *Risk Management Committee*

Chairman: Mr. Xu Bin; Members: Mr. Gao Xiaodong, Mr. Tao Jun, Mr. Wang Yongshu.

The primary responsibilities of the Risk Management Committee include:

1. to decide on the risk management and internal control policies in accordance with the overall strategy of the Bank, and to monitor and assess the implementation and effectiveness;
2. to provide guidance on establishing the risk management and internal control systems;
3. to monitor and assess the organisational structure, working procedures and effectiveness of risk management department, and to provide opinions on further improvements;
4. to monitor and assess the risk management and risk tolerance of the Bank and provide opinions on further improvements;
5. to review the risk and internal control report, conduct periodic assessments of the risk management and internal control, and provide opinions on further improvements;
6. to evaluate the performance of the Bank's senior executives responsible for risk management;
7. to make decisions on special issues as authorized by the Board of Directors;
8. to handle such other matters as authorized by the Board of Directors.

(III) *Related Party Transaction Supervision Committee*

Chairwoman: Ms. Ran Hua; Members: Mr. Wang Yongshu, Mr. Tu Jianhua.

The primary responsibilities of the Related Party Transaction Supervision Committee include:

1. to identify the related parties of the Bank and report to the Board of Directors and the board of supervisors in respect thereof, and to notify in a timely manner the relevant staff of the Bank of the related parties it has identified;
2. to receive filing of ordinary related party transactions;

3. to examine and approve major related party transactions and to submit very substantial related party transactions, after preliminary examination, to the Board of Directors (and the board of supervisors) for consideration;
4. to make decisions on special issues as authorized by the Board of Directors;
5. to handle such other matters as authorized by the Board of Directors.

(IV) *Nomination Committee*

Chairwoman: Ms. Ran Hua; Members: Mr. Wu Xiufeng, Mr. Gao Xiaodong, Mr. Liu Jianzhong and Mr. Tan Yuansheng.

The primary responsibilities of the Nomination Committee include:

1. to formulate the criteria and procedures for the selection and appointment of directors and senior executives, and to submit them to the Board of Directors for consideration;
2. to present their recommendation to the Board of Directors on candidates for directors and the President;
3. to present their recommendation to the Board of Directors on candidates for members of the Board Committees;
4. to consider the candidates for senior executives nominated by the President and present their recommendation to the Board of Directors;
5. to formulate development plans for senior executives and back-up personnel for key positions;
6. to make decisions on special issues as authorized by the Board of Directors;
7. to handle such other matters as authorized by the Board of Directors.

(V) *Remuneration Committee*

Chairman: Mr. Xu Bin; Members: Mr. Tu Jianhua, Mr. Tan Yuansheng, Mr. Pu Yongjian and Ms. Ran Hua.

The primary responsibilities of the Remuneration Committee include:

1. to formulate measures for directors' performance evaluation and plans for supervisors' and directors' remuneration allocation, and to submit the same to the Board of Directors for consideration;
2. to formulate performance evaluation measures and remuneration allocations plans for the senior management , and to submit the same to the Board of Directors for consideration;
3. to carry out the performance evaluation of directors, and to present their recommendation with regard to the directors' remuneration allocation plan and submit the same to the Board of Directors for consideration;
4. to present their recommendation with respect to the supervisors' remuneration allocation plan based on the performance evaluation of supervisors conducted by the board of supervisors, and submit the same to the Board of Directors for consideration;
5. to carry out the performance evaluation of the senior management, and to present their recommendation with regard to the remuneration allocation plan for the senior management and submit the same to the Board of Directors for consideration;
6. to monitor the implementation of the performance evaluation system and remuneration system of the Bank;
7. to make decisions on special issues as authorized by the Board of Directors;
8. to handle such other matters as authorized by the Board of Directors.

(VI) *Audit Committee*

Chairman: Mr. Pu Yongjian; Members: Mr. Tao Jun, Mr. Wen Honghai, Mr. Xu Bin and Ms. Ran Hua.

The primary responsibilities of the Audit Committee include:

1. to monitor the financial report and review the disclosure of accounting information and significant events of the Bank;
2. to monitor and assess the internal controls of the Bank;
3. to monitor the compliance level of the core businesses, management systems and substantial business activities;
4. to monitor and assess the internal audit of the Bank;
5. to monitor and assess the external audit, to present recommendations to the Board of Directors in respect of the engagement or change of an independent audit firm and to maintain the communication and coordination between external and internal audit;
6. to report its work to the Board of Directors and maintain communication and cooperation with other committees;
7. to provide guidance, as authorized by the Board of Directors, to the work of the internal audit department;
8. to make decisions on special issues as authorized by the Board of Directors;
9. to handle such other matters as authorized by the Board of Directors.

(VII) *Minority Shareholders' Interest Protection Committee*

Chairman: Mr. Pu Yongjian; Members: Mr. Wu Xiufeng, Mr. Wen Honghai.

The primary responsibilities of the Minority Shareholders' Interest Protection Committee include:

1. to ensure that the information of the Bank is disclosed in a timely, accurate and complete manner and contains no false representation, misleading statement or material omission;
2. to safeguard the voting right and enquiry right of the minority shareholders at the general meetings;
3. to safeguard the minority shareholders' right to inspect the Articles of Association, register of members, minutes of the general meetings, minutes of the meetings of the Board of Directors, minutes of the meetings of the board of supervisors and the financial and accounting reports of the Bank;
4. to assist shareholders in bringing a lawsuit in accordance with the laws and regulations, administrative rules and the Articles of Association of the Bank;
5. to pay close attention to the related transactions of the Bank involving the interests of minority shareholders;
6. to recommend that the Board of Directors file a suit against the controlling shareholders for their conducts prejudicial to the interests of the Bank;
7. to discuss and put forth measures for safeguarding minority shareholders' interests;
8. to monitor the Bank's support for "Sannong";
9. to make decisions on special issues as authorized by the Board of Directors;
10. to handle such other matters as authorized by the Board of Directors.

In 2010, the Bank's Board committees held five meetings in total, one by the Nomination Committee and four by the Related Party Transaction Supervision Committee. At these meetings, several proposals were considered respectively and became resolutions, including those regarding engaging the secretary to the Board of Directors, issuing credit to Loncin Holdings (隆鑫控股有限公司集團) and purchasing Changjiang Loncin (長江隆鑫) Renminbi financial products .

In 2011, the Bank's Audit Committee held one meeting. Resolutions were passed upon consideration of proposals in relation to 2011 results announcement, 2010 annual report and appointment of auditors for the year 2011 by all committee members.

Members of the Nomination Committee	Number of meetings attended in person	Number of meetings attended by proxy	Number of meetings absent from	Attendance rate
Liu Jianzhong	1/1	0	0	100%
Tan Yuansheng	1/1	0	0	100%
Gao Xiaodong	1/1	0	0	100%
Wu Xiufeng	1/1	0	0	100%
Ran Hua	1/1	0	0	100%

Members of the Related Party Transaction Supervision Committee	Number of meetings attended in person	Number of meetings attended by proxy	Number of meetings absent from	Attendance rate
Wang Yongshu	4/4	0	0	100%
Tu Jianhua (Note)	2/2	0	0	100%
Ran Hua	4/4	0	0	100%

Note: Tu Jianhua had only attended two meetings throughout the year as he was required to abstain from voting in two meetings related to connected transactions.

Internal Control

With the purpose of the Group's internal audit to achieve effective internal control, risk management and corporate governance, the Bank carried out appraisals and evaluations on the effectiveness of internal control and risk management, the profitability of operation activities, the effects of governance programs and the economic responsibilities of major management members and proposed corresponding recommendations. The internal audit was vertically managed and relatively independent. It was accountable to the Board and the audit committee and responsible for reporting to them, the supervisory committee and the senior management. The Bank also set up the audit department, four regional audit offices and audit offices at 43 branches, which discharged the management of audit work and the implementation of audit activities.

In 2010, the Bank implemented a series of supporting measures around management mode, resource allocation, program standards, technical approaches and team qualities. Furthermore, the Bank managed to improve the quality and value of audit by boosting the performance of duties and ensuring the smooth implementation of audit plans.

During the reporting period, the audit activities mainly focused on the adequacy and effectiveness of internal control, risk management and corporate governance. It organized and carried out audit projects including the annual audit on the truthfulness of financial information, the regular audit, the specialized audit on credit business, the specialized audit on capital business, the IT risk audit, the specialized audit for the decoration of newly-opened branches and the specialized audit for the resignation of key positions and personnel in order to strengthen the audit on major fields and primary risks. Meanwhile, it conducted risk investigations in the capital settlement center of the Bank, the international business department, the business department and the branches within its jurisdiction. Particularly, the spot check on the base-level business institutions by special inspection team not merely revealed the risk hazards and loopholes, but also improved the internal control and the executive ability of risk prevention. The Board, the supervisory board and the senior management attached great importance to relevant audit results and proactively pressed ahead with the renovation and optimization of systems, procedures and the IT system, thereby facilitating the risk prevention and control among all the branches and the Bank and improving the operating efficiency and results.

In 2010, the directors of the Bank conducted an evaluation on its internal control system, including all controls that are significant, such as finance control, operation control, compliance control and control on risks management capabilities. After taking special consideration as to whether the Banks' resources, staff qualifications and working experience are sufficient in performing accounting and financial reporting, and whether staff training and relevant budget are adequate, the Board is of the opinion that the internal control system is effective.

BOARD OF SUPERVISORS

Composition of the Board of Supervisors

Supervisors may be present at meetings of the Board of Directors, making inquiries and giving advice regarding resolutions made at such meetings, and may, if deemed necessary, designate supervisors to sit in on meeting of the senior management of the Bank. At the end of 2010, the board of supervisors comprised nine supervisors, including four shareholder representative supervisors, namely Mr. Zhang Peng, Mr. Zeng Jianwu, Ms. Zuo Ruilan, Mr. Chen Fangming; two external supervisors, namely Ms. Dong Yunling and Mr. Chen Huiming; three employee representative supervisors, namely Ms. Yang Mingping, Mr. Zhang Yiqiao and Mr. Liu Yu.

Chairwoman of the Board of Supervisors

Ms. Yang Mingping serves as the chairwoman of the board of supervisors and is responsible for organisation and performance of duties of the board of supervisors.

Operation of the Board of Supervisors

The board of supervisors convenes regular meetings, generally not less than twice a year and not less than once every six months, and holds extraordinary meetings, if and when required.

Meetings of the Board of Supervisors

The board of supervisors convened eight meetings during the year 2010. Attendance records of the supervisors at meetings of the Board of Supervisors in 2010 are set out as follows:

Members of the Board of Supervisors	Number of meetings attended in person / Number of meetings held during their term of office	Number of meetings attended by proxy / Number of meetings held during their term of office	Attendance rate (%)
Shareholder representative supervisors			
Zhang Peng <i>(Note)</i>	0/0	0/0	—
Zeng Jianwu	7/8	1/8	100%
Zuo Ruilan	6/8	2/8	100%
Chen Fangming	7/8	1/8	100%
Employee representative supervisors			
Yang Mingping	8/8	0/8	100%
Zhang Yiqiao	5/8	3/8	100%
Liu Yu <i>(Note)</i>	5/5	0/5	100%
External supervisors			
Dong Yunling	7/8	1/8	100%
Chen Huiming <i>(Note)</i>	0/0	0/0	—

Note: Liu Yu was elected as a employee representative supervisor in August 2010, and Zhang Peng and Chen Huiming were elected as a shareholder representative supervisor and an external supervisor respectively in November 2010.

Remuneration of Domestic and Overseas Auditors

The audit opinion and their responsibilities of external auditors are set out in the “Independent Auditor’s Report” on pages 147 to 296.

The fees paid by the Bank to Deloitte Touche Tohmatsu CPA Ltd. and Deloitte Touche Tohmatsu for the audit of financial statements for the year ended December 31, 2010 were RMB1.5 million.

OTHER INFORMATION

Effective Communication with Shareholders

The Bank places great emphasis on communications with its shareholders and strives to enhance understanding and communication through many channels such as general meetings, results announcement, road shows, visit reception and telephone enquiries .

Shareholder Enquiries

Any enquiries related to your shareholding, including transfer of shares, change of address, loss reporting of share certificates and dividend notes, should be sent in writing to our share registrar at:

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong

Investor Relations

Enquiries to the Board may be directed to:

Office of the Board of Directors of Chongqing Rural Commercial Bank Co., Ltd.

No. 10 East Yanghe Road, Jiangbei District, Chongqing, China

Telephone: ((8623) 6763 7933

Facsimile: (8623) 6763 7932

Email: ir@cqrcb.com

Principal Place of Business in Hong Kong of Chongqing Rural Commercial Bank Co., Ltd.

Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong

This annual report is available on the websites of the Bank (www.cqrcb.com) and Hong Kong Stock Exchange (www.hkexnews.hk).

Other Particulars

The Bank holds a financial license number B0335H250000001 approved by China Banking Regulatory Commission, and was authorized by the Administration for Industry and Commerce of Chongqing to obtain a corporate legal person business license with a registration number 500000000001239. The Bank is not an authorized institution in accordance with the Hong Kong Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and deposit-taking business in Hong Kong.



Directors, Supervisors and Senior Management

INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Name	Position	Gender	Age	Term of office
Liu Jianzhong	Chairman of the Board of Directors, executive director	Male	47	From June 2008 to 2010 Annual General Meeting
Tan Yuansheng	President, executive director	Male	57	From June 2008 to 2010 Annual General Meeting
Tao Jun	Non-executive director	Male	44	From June 2008 to 2010 Annual General Meeting
Tu Jianhua	Non-executive director	Male	47	From June 2008 to 2010 Annual General Meeting
Wen Honghai	Non-executive director	Male	45	From June 2008 to 2010 Annual General Meeting
Wang Yongshu	Non-executive director	Male	53	From June 2008 to 2010 Annual General Meeting
Gao Xiaodong	Non-executive director	Male	48	From June 2008 to 2010 Annual General Meeting
Wu Xiufeng	Non-executive director	Male	61	From June 2008 to 2010 Annual General Meeting
Xu Bin	Independent non-executive director	Male	66	From June 2008 to 2010 Annual General Meeting
Pu Yongjian	Independent non-executive director	Male	49	From June 2008 to 2010 Annual General Meeting
Ran Hua	Independent non-executive director	Female	66	From June 2008 to 2010 Annual General Meeting

Supervisors

Name	Position	Gender	Age	Term of office
Yang Mingping	President of the Board of Supervisors	Female	57	From June 2008 to 2010 Annual General Meeting
Zhang Peng	Shareholder representative supervisor	Male	35	November 2010 to 2010 Annual General Meeting
Zeng Jianwu	Shareholder representative supervisor	Male	35	From June 2008 to 2010 Annual General Meeting
Zuo Ruilan	Shareholder representative supervisor	Female	35	From June 2008 to 2010 Annual General Meeting
Chen Fangming	Shareholder representative supervisor	Male	46	From June 2008 to 2010 Annual General Meeting
Dong Yunling	External supervisor	Female	62	From June 2008 to 2010 Annual General Meeting
Chen Huiming	External supervisor	Male	67	From November 2010 to 2010 Annual General Meeting
Zhang Yiqiao	Employee representative supervisor	Male	39	From June 2008 to 2010 Annual General Meeting
Liu Yu	Employee representative supervisor	Male	39	From August 2008 to 2010 Annual General Meeting

Senior Management

Name	Position	Gender	Age	Term of office
Tan Yuansheng	President, executive director	Male	57	June 2008-
Bai Guiting	Vice president	Male	55	June 2008-
Wang Rong	Vice president	Male	54	June 2008-
Yang Xiaotao	Vice president	Male	47	June 2008-
Ling Jiaquan	Chief controller	Male	55	February 2009-
Yuan Xiaobo	Deputy secretary of the Party committee, Secretary of the Discipline Committee	Male	47	December 2008-
Sui Jun	Vice president, Secretary to the Board and Joint Company Secretary	Male	42	February 2009- August 2010-

REMUNERATION FOR DIRECTORS IN 2010

Unit: RMB'000

Name	Fees	Basic salaries, allowances and benefits in kind	Contribution to pension schemes	Bonuses	Total
Executive directors					
Liu Jianzhong	—	88	36	650	774
Tan Yuansheng	—	87	36	651	774
Independent non-executive directors					
Xu Bin	75	—	—	—	75
Pu Yongjian	75	—	—	—	75
Ran Hua	75	—	—	—	75
Non-executive directors					
Tao Jun	38	—	—	—	38
Tu Jianhua	38	—	—	—	38
Wen Honghai	38	—	—	—	38
Wang Yongshu	38	—	—	—	38
Gao Xiaodong	38	—	—	—	38
Wu Xiufeng	38	—	—	—	38

REMUNERATION FOR SUPERVISORS AND SENIOR MANAGEMENT

As at December 31, 2010, the total remuneration before tax paid by the Bank to its supervisors and senior management amounted to RMB2,025,000 and RMB3,760,000 respectively. Details of supervisors' remuneration are as follows:

REMUNERATION FOR SUPERVISORS IN 2010

Unit: RMB'000

Name	Fees	Basic salaries, allowances and benefits in kind	Contribution to pension schemes	Bonuses	Total
President of the Board of Supervisors					
Yang Mingping	—	79	36	586	701
Shareholder representative supervisors					
Zhang Peng	3	—	—	—	3
Zeng Jianwu	25	—	—	—	25
Zuo Ruilan	25	—	—	—	25
Chen Fangming	25	—	—	—	25
External supervisors					
Dong Yunling	50	—	—	—	50
Chen Huiming	5	—	—	—	5
Employee representative supervisors					
Li Zhen	—	47	18	257	322
Zhang Yiqiao	—	76	36	498	610
Liu Yu	—	31	15	213	259

Note: Li Zhen resigned as the supervisor in August 2010, and Liu Yu served as a supervisor from August 2010.

Zhang Peng and Chen Huiming served as supervisors since November 2010.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Upon the passing of resolution at the second extraordinary general meeting in 2010, Mr. Zhang Peng and Mr. Chen Huiming, who were elected at the 14th meeting of the first board of supervisors of the Bank, commenced their positions as supervisors of the Bank from November 2010. Upon election at the fourth meeting of the first staff representative assembly of the Bank, Mr. Liu Yu commenced his position as a supervisor of the Bank from August 2010.

WORKING EXPERIENCE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Directors of the Bank

LIU Jianzhong

Chairman, Executive Director

Mr. LIU Jianzhong has been the Chairman of the Board and an executive Director of the Bank since June 2008. Mr. Liu is currently the Chairman of the Board, a secretary of the Party committee and a deputy to the 3rd People's Congress of Chongqing. Between November 2002 and June 2008, Mr. Liu held a number of positions at the Chongqing Rural Credit Cooperative Union, including director-general, secretary to the Party committee, director-general and deputy director-general. Prior to joining the Bank and between October 1992 and November 2002, Mr. Liu held several positions at the Chongqing business management department of the PBOC Chongqing Operations Office, including division director and deputy division director of the Cooperative Financial Institution Regulatory Division and deputy division director of the Administration Office. Mr. Liu worked for the frontier inspection station at the Chongqing Airport between March 1984 and September 1992. Mr. Liu has over 18 years of experience in banking. Mr. Liu received a master's degree in Industrial Engineering from Chongqing University in 2005. He is currently a senior economist accredited by Chongqing Municipal Government.

TAN Yuansheng

President, Executive Director

Mr. TAN Yuansheng has been the executive Director of the Bank since June 2008. Mr. Tan is currently the president of the Bank and a member of Chongqing Municipal Committee of the 3rd Chinese People's Political Consultative Conference. Between April 2003 and June 2008, Mr. Tan held a number of positions at the Chongqing Rural Credit Cooperatives, including director-general, deputy director-general as well as member of the Party committee. Prior to joining the Bank and from May 1998 to April 2003, Mr. Tan was an assistant to the president, vice president, executive director and member of the Party committee of Commercial Bank of Chongqing; from September 1996 to May 1998, Mr. Tan was the vice president and executive director of Chongqing Urban Cooperative Bank; from October 1993 to September 1996, Mr. Tan was the director of Chongqing Urban Cooperative Union; and from July 1992 to October 1993, Mr. Tan was general manager of the Chongqing Stock Exchange Centre. Since 1977, Mr. Tan held various positions at the PBOC Chongqing Operations Office and the Chongqing branch of the Industrial and Commercial Bank of China. Mr. Tan has over 30 years of experience in banking. Mr. Tan graduated from the Correspondence College of Sichuan Provincial Party Committee No.2 Party School majoring in Law in 1996 and is currently a senior economist accredited by PBOC.

TAO Jun

Non-Executive Director

Mr. TAO Jun has been a non-executive Director of the Bank since June 2008. Since November 2004, Mr. Tao has been the general manager of Chongqing Yufu Assets Management Company Limited, our single largest shareholder and one of our state-owned shareholders. Mr. Tao was the Director of Yangtze River Economy United Development (Group) Co., Ltd. from March 2007 to October 2010. From March 2004 to November 2004, Mr. Tao was deputy general manager (take charge of work) of Chongqing Yufu Assets Management Company Limited; from May 1995 to March 2004, director of General Office at Commercial Bank of Chongqing and president of the Zou Rong Road branch; from December 1991 to May 1995, Mr. Tao was the assistant director of Chongqing Magnet Wire Plant, the deputy plant director of Chongqing Mining Machinery Factory and was also the secretary of General Office of Chongqing Machinery and Industrial Bureau. From July 1987 to December 1991, Mr. Tao was a technician and the deputy secretary of Youth League committee of Chongqing Tool Factory (take charge of work). Mr. Tao obtained a master's degree in Industrial and Senior Commercial Management from Chongqing University in 2008.

TU Jianhua

Non-Executive Director

Mr. TU Jianhua has been a non-executive Director of the Bank since June 2008. Mr. Tu is currently the chairman of the board and manager of Loncin Group Co., Ltd. Mr. Tu is also the chairman of the board of Chongqing Loncin Industry (Group) Co., Ltd., Chongqing Jinlong Science & Technology (Group) Co., Ltd., Chongqing Loncin Plastics Co., Ltd., Chongqing Jinlong Motor Manufacturing Co., Ltd., and Chongqing Jinlong Motor Sales Co., Ltd. Mr. Tu is also a deputy to the 11th National People's Congress, an executive committee member of the 10th National Industry and Commerce Committee, deputy to the 3rd People's Congress of Chongqing, committee member of the 3rd People's Congress Standing Committee Financial and Economic Office, vice president of the Chongqing Industrial and Commercial Committee and president of Chongqing Motor Trade Association. Mr. Tu has been the chairman of the board of Loncin Group Co., Ltd since March 1996 and the chairman of the board of Loncin Holdings Limited, one of our state-owned shareholders, from January 2003 to July 2010. From March 1993 to March 1996, Mr. Tu was the general manager of Chongqing Loncin Gasoline Engine Company (a Sino-American joint venture), and between December 1990 and March 1993, he was the plant director of Chongqing Loncin Transport Machinery Factory; from August 1988 to December 1990, Mr. Tu was the general manager of Chongqing Loncin Metals Company (a Sino-foreign joint venture); from December 1983 to August 1988, Mr. Tu was the plant director of Chongqing Xinhua Metal Products Factory; from October 1981 to December 1983, Mr. Tu was a coal miner in Zhongliangshan. Mr. Tu graduated from Correspondence Colledge of Chongqing Municipal Party Committee majoring in Economics Management in 1998.

WEN Honghai*Non-Executive Director*

Mr. WEN Honghai has been a non-executive Director of the Bank since June 2008. Mr. Wen has also been the director and vice president of Huaxin Century Investment Group Co., Ltd since March 2001. From June 2000 to March 2001, Mr. Wen was the deputy finance manager and finance manager of Huaxin Century Investment Group Co., Ltd. From 1996 to 2000, Mr. Wen was the finance manager of China Enterprise International Investment Co. Ltd. From 1992 to 1996, Mr. Wen once worked for China Rural Development Trust and Investment Company. Mr. Wen obtained a bachelor's degree in Economics and Finance from Renmin University of China in 1988.

Mr. WANG Yongshu*Non-Executive Director*

Mr. WANG Yongshu has been a non-executive Director of the Bank since June 2008. Mr. Wang has been the chairman of the board of directors of Chongqing Transport and Travel Investment Group Co., Ltd, one of our state-owned shareholders, since August 2008. Mr. Wang held a number of positions in Chongqing Transport and Travel Investment Group Co., Ltd. between November 2006 and August 2008, including vice chairman of the board of directors and general manager. Mr. Wang was the chairman of the board and the secretary of the Party committee for Chongqing Yangtze Agriculture Industry and Commerce Holding Group Co., Ltd. from September 2000 to November 2006; from January 1999 to September 2000, Mr. Wang was the deputy general manager, general manager and the secretary of the Party committee of Chongqing Yangtze Agriculture Industry and Commerce Union Main Office; from April 1998 to January 1999, Mr. Wang was the vice chairman of Qianjiang Development Area Administration Committee; from August 1994 to April 1998, Mr. Wang was the deputy commissioner of Qianjiang Area Administration Commission; from August 1988 to August 1994, Mr. Wang was deputy director-general, director-general and secretary of the Party committee of the Qianjiang Area Finance Bureau; from February 1980 to August 1988, Mr. Wang was an office clerk, chief and deputy director-general of the Finance Bureau of Pengshui County. Mr. Wang graduated from College of Chongqing Municipal Party Committee majoring in Politics and Economics in 1998 and is currently a senior accountant accredited by the Chinese Institute of Certified Public Accountants (CICPA) (中國註冊會計師協會) and a registered accountant.

Mr. GAO Xiaodong

Non-Executive Director

Mr. GAO Xiaodong has been a non-executive Director of the Bank since June 2008. Mr. Gao has been the chairman of the board of directors of Chongqing Emperor Science & Technology Co., Ltd, one of our shareholders, since May 2000, the chairman of Chongqing Guangyuan Investment & Development Co., Ltd since 1997 and the chairman of Chongqing New City Develop Build Co., Ltd since October 2006, and is currently the chairman of Chongqing Sun Kingdom International Golf Club Co., Ltd and the chairman of the board and general manager of Chongqing Tengxiang Industrials Co., Ltd. Between February 1992 and June 1997, Mr. Gao once worked for Chongqing Municipal committee as the secretary to mayor of deputy department level, the secretary to the committee's secretary, the secretary of deputy department level to the municipal committee office and the deputy director of the standing committee office of Chongqing municipal committee; from November 1988 to February 1992, Mr. Gao worked for the office of China Silian Instrument Group; from August 1983 to November 1988, Mr. Gao worked for Sichuan Instrument General Factory. Mr. Gao obtained a bachelor's degree in Precision Equipment and Construction from Shanghai School of Mechanical Engineering in 1983.

WU Xiufeng

Non-Executive Director

Mr. WU Xiufeng has been a non-executive Director of the Bank since June 2008. Mr. Wu is the chairman of the board and secretary of the Party committee of Chongqing Water Group Co., Ltd. (601158-SH), one of our state-owned shareholders, the chairman of the board and president of Chongqing Water Assets Management Co., Ltd. and is the chairman of the board for Sino French Water Investment Co., Ltd., Chongqing Sino French Tangjiatuo Wastewater Treatment Co., Ltd. and Chongqing Sino French Water Supply Co., Ltd. Mr. Wu is a deputy to the 11th National People's Congress and vice chairman of the 3rd Chongqing Urban and Rural Construction & Environmental Protection Committee of the National People's Congress. Mr. Wu has previously served as the chairman of the board and secretary of the Party committee for Chongqing Water Holdings (Group) Co., Ltd. from December 2000 to August 2007 (also the president from December 2000 to August 2001) and was the deputy director of Chongqing Municipality Judicial and Legal Affairs Committee and preparation group leader of Chongqing Water Holdings (Group) Co., Ltd. between August 2000 and December 2000. Mr. Wu was the secretary of the Party committee and director-general of Chongqing Municipality Engineering and Public Utility Bureau from July 1997 to August 2000, the vice secretary of the Party committee and deputy director-general of Chongqing Municipality Engineering and Public Utility Bureau from October 1992 to July 1997, manager of Chongqing Municipality Tap Water Company from December 1989 to October 1992 and was the deputy secretary of the Party committee and secretary of the Party committee of Chongqing Municipality Tap Water Company from January 1984 to December 1989. Mr. Wu was the deputy secretary of Youth League committee of Chongqing Public Bureau from September 1978 to January 1984. Mr. Wu was the deputy secretary of Youth League committee and a member of the municipal committee of Youth League of Chongqing Urban Construction Bureau from August 1972 to September 1978. Mr. Wu was the director of Youth League committee and an alternate member of municipal committee of Youth League of Chongqing Public Transport Company from July 1971 to August 1972. From February 1968 to July 1971, Mr. Wu was a student pilot at China Senior Civil Aviation School. Mr. Wu graduated from the People's Liberation Army Air Force No. 2 Aviation Preparatory School majoring in Flying in 1968 and is currently a senior economist accredited by Chongqing Municipal Government.

XU Bin*Independent Non-Executive Director*

Mr. XU Bin, has been an independent non-executive Director of the Bank since June 2008. He is currently a director for Sun Life Everbright Life Insurance Co., Ltd. and an independent non-executive director for Industrial Bank Co., Ltd. (601166-SH). Mr. Xu has previously served as the chairman for Sun Life Everbright Life Insurance Co., Ltd. from September 2005 to June 2009. From February 1997 to September 2005, Mr. Xu held a number of positions including the president and chairman of the board of China Everbright Bank, vice general manager and vice chairman of China Everbright Group Limited and vice chairman of China Everbright Limited. Mr. Xu was the deputy director at the State Administration of Foreign Exchange from November 1992 to February 1997. Mr. Xu was the branch office director and vice-president of the PBOC in Dandong, Liaoning Province and the vice-president of the Dandong branch from 1984 to November 1992. From September 1960 to 1984, Mr. Xu engaged in professional work successively, including cashier, accounting, deposit, credit and international finance. Mr. Xu obtained a PhD in the study of currencies and banking from Southwestern University of Finance and Economics in 1998 and is currently a senior economist accredited by PBOC. Mr. Xu has more than 12 years' management experience serving as chairman of the board, vice general manager and vice chairman of a number of financial institutions and listed companies in banking and insurance industries. By holding such senior financial and accounting roles, Mr. Xu led decision-making process of listed companies on finance and accounting related matters and the management discussions thereof. His responsibilities include but not limited to supervising preparation of financial statements and overseeing internal control systems of such listed companies, through which he gained adequate experience in accounting and financial management related areas. Considering the totality of Mr. Xu's educational background and professional experience, the Board is of the view that Mr. Xu possesses appropriate accounting and related financial management expertise as required under Rule 3.10(2) of the Hong Kong Listing Rules.

PU Yongjian*Independent Non-Executive Director*

Mr. PU Yongjian, has been an independent non-executive Director of the Bank since June 2008. Since May 2004, Mr. Pu has been the vice president at the Development Research Center of Chongqing University and is the deputy director for the University's Institute for Sustainable Development, a professor and a doctoral tutor. Between May 1988 and May 2004, Mr. Pu was the dean of finance, the deputy director and a doctoral tutor for the Department of Economics and Commercial & Industrial Management of Chongqing University. Mr. Pu studied for the master's degree at the Institute of Applied Physics of the University of Electronic Science and Technology of China from July 1985 to May 1988. Mr. Pu was a lecturer at the Department of Mathematics of Southwest Jiaotong University from July 1983 to July 1985. Mr. Pu received a PhD in Technical Economics and Management from Chongqing University in 1997. Mr. Pu is a highly regarded scholar in the finance fields. He has been in charge of various research projects in finance related topics and has already published a number of research papers thereon. Considering the totality of Mr. Pu's educational background and professional experience, the Board is of the view that Mr. Pu possesses appropriate accounting and related financial management expertise as required under Rule 3.10(2) of the Hong Kong Listing Rules.

RAN Hua

Independent Non-Executive Director

Ms. RAN Hua has been an independent non-executive Director of the Bank since June 2008. Ms. Ran served previously as a senior consultant for Chongqing Construction Engineering Group from September 2006 to January 2008. Ms. Ran was re-employed by the Chongqing branch of the Industrial and Commercial Bank of China to assist in dealing with non-performing assets and works relating to the reform of the back-office corporate regime. Ms. Ran was the departmental inspector, deputy branch control-general and office director of the Chongqing branch of the Industrial and Commercial Bank from May 1991 to April 2004 and was the deputy director of the Planning Division at the Chongqing branch of Industrial and Commercial Bank of China from December 1985 to May 1991. From February 1982 to December 1985, Ms. Ran served as the chief of the planning group at the Chongqing branch of the PBOC. Ms. Ran served as deputy section chief of the Planning Section of the Nan'an Office of the PBOC's Chongqing branch from January 1972 to February 1982. Ms. Ran was the deputy branch director of the Tong Yuan Ju branch of the Nan'an Office of Chongqing branch of the PBOC between December 1965 and January 1972. From September 1962 to December 1965, Ms. Ran engaged in the following work at the Nan'an Office of the PBOC's Chongqing branch successively, including personnel, accounting, cashier, deposit, credit, planning. Ms. Ran graduated from Chongqing Radio & TV University majoring in Finance in 1991 and is a senior economist accredited by Industrial and Commercial Bank of China.

2. Supervisors of the Bank

YANG Mingping

President of the Board of Supervisors

Ms. YANG Mingping has been the president of the Board of Supervisors of the Bank since June 2008. She is currently the president of the Board of Supervisors of the Bank. From June 2008 to March 2010, Ms. Yang served several positions in the Bank such as the deputy secretary of the Party committee and secretary of the Party disciplinary committee. From June 2000 to June 2008, Ms. Yang served in several positions in Chongqing Rural Credit Cooperative Union, including deputy secretary of the Party committee, secretary of the Party disciplinary committee and president of the Board of Supervisors. Prior to joining the Bank, Ms. Yang served as the deputy director of Officer Inspection Division of Chongqing Municipal Party Committee Organization Department from February 1998 to June 2000 and was an organizer (Deputy Division Director level) and Party Branch secretary for Party and Administrative Cadres Division of Chongqing Municipal Party Committee Organization Department from May 1985 to February 1998. Ms. Yang was an instructor and a member of Party branch at the Party School of Chongqing Iron and Steel Company from August 1982 to May 1985. Ms. Yang obtained a bachelor's degree in Philosophy in 1982 from the University of Yunnan and is a senior economist accredited by Chongqing Municipal Government.

ZHANG Peng

Shareholder Representative Supervisor

Mr. ZHANG Peng has been a shareholder representative Supervisor of the Bank since November 2010. He is also currently the president of the board of supervisors of Chongqing Yukai Co., Ltd (重慶渝開發股份有限公司) and director of Chongqing Gangjiu Co., Ltd. Since December 2008, Mr. Zhang has been finance manager of Chongqing Urban Construction Investment Company (重慶市城市建設投資公司). From September 2002 to December 2008, he was deputy finance manager of Chongqing Urban Construction Investment Company. Mr. Zhang graduated from Southwestern University of Finance and Economics majoring in CPA in 1998.

ZENG Jianwu

Shareholder Representative Supervisor

Mr. ZENG Jianwu has been a shareholder representative Supervisor of the Bank since June 2008. Mr. Zeng has been the deputy general manager of Laierfu Trading Co., Ltd since May 2001. Mr. Zeng has obtained a PhD in Financial Engineering from Xiamen University in 2008.

ZUO Ruilan

Shareholder Representative Supervisor

Ms. ZUO Ruilan has been a shareholder representative Supervisor of the Bank since June 2008. Ms. Zuo has been the chairman of Chongqing Yerui Property Development Co., Ltd. since January 2006 and the chairman of Chongqing Huayu Property Service Co., Ltd. since July 2000. Ms. Zuo worked at the Chongqing Jiangjin Branch office of the Construction Bank of China from July 1995 to July 2000. Ms. Zuo graduated in 2000 from Southwest University majoring in Economics Management.

CHEN Fangming

Shareholder Representative Supervisor

Mr. CHEN Fangming has been a shareholder representative Supervisor of the Bank since June 2008 and has been the deputy general manager of Chongqing Water Conservancy Investment Group Co., Ltd since May 2008. Mr. Chen was the financial director and head of Investment Finance and Development Division for Chongqing Water Conservancy Investment Group Co., Ltd. from 2004 to 2008. Mr. Chen was the chief financial officer of Olive Cosmetics Company Limited from 2002 to 2004. Mr. Chen was the manager of the investment banking division of China Cinda Chongqing office from 1999 to 2002. Mr. Chen worked for the Chongqing branch of the Construction Bank of China from 1998 to 1999. Mr. Chen was a teacher at the Chenjia Middle School in Kai County from 1986 to 1995. Mr. Chen graduated from Southwestern University of Finance and Economics with a master's degree in Economics in 1998 and is currently a senior international finance manager.

DONG Yunling

External Supervisor

Ms. DONG Yunling, has been an external Supervisor of the Bank since June 2008. From August 2006 to June 2008, Ms. Dong served as deputy inspector of China Banking Regulatory Commission Chongqing Regulatory Bureau. Ms. Dong served as a secretary of the discipline committee and a member of the Party committee of the China Banking Regulatory Commission Chongqing Regulatory Bureau between September 2003 and August 2006. Ms. Dong held a number of positions at the Chongqing Operations Management Division of PBOC from November 1986 to September 2003, including assistant inspector, director of the Discipline Committee General Office and deputy director of the Discipline Inspection and Supervision Division. Ms. Dong was the deputy secretary of the Party branch and the chairman of labor union of Chongqing Tiaosu Dianji Factory from December 1974 to November 1986. Ms. Dong was a cadre at Chongqing Battery Factory from November 1973 to December 1974. Ms. Dong was a life insurance officer at the Luzhou Shipbuilding Factory of Chongqing Shipping Company from March 1971 to November 1973. Ms. Dong graduated from Correspondence College of Chongqing Municipal Party Committee, majoring in Politics in 1986 and is a senior administration engineer accredited by PBOC.

CHEN Huiming

External Supervisor

Mr. Chen Huiming has been an external Supervisor of the Bank since November 2010. Mr. Chen is currently an independent director of CISDI Engineering Company Limited, Lifan Group Incorporated and Chongqing ZhiFei Biological Products Co., Ltd. Mr. Chen has retired since April 2003. Mr. Chen was an inspector of Chongqing municipal government office from 2002 to April 2003, the team leader of Chongqing special commission office of National Audit Office of the PRC in 2001, and the deputy secretary general of Chongqing municipal government from 1997 to 2001. He was chairman and secretary of party committee of Chongqing ITIC (重慶國際信託投資公司) from December 2000 to April 2001, deputy director of Chongqing Fiscal Bureau and director of Chongqing State-owned Assets Supervision and Administration Commission from 1991 to 1997, a general auditor of Chongqing Administration of Taxation from 1988 to 1991, and deputy director of Chongqing Audit Bureau from 1983 to 1988, and deputy director of Chongqing Nantong Mining Bureau from 1982 to 1983.

ZHANG Yiqiao

Employee Representative Supervisor

Mr. ZHANG Yiqiao has been the Bank's employee representative Supervisor of the Bank since June 2008 and is currently the director-general of our Guarding and Supervision Division. From February 2000 to June 2008, Mr. Zhang held several positions in Chongqing Rural Credit Cooperative Union, including director-general of the Guarding and Supervision Division and deputy director of Human Resources and Education Division. Prior to joining the Bank, Mr. Zhang spent his time between March 1993 and February 2000 working as cadre in the Operations Management Education Division in the PBOC Chongqing Operations Office. Mr. Zhang obtained a bachelor's degree from the People's Liberation Army Chongqing Communication College in Engineering in 2003 and is currently an administration engineer.

Mr. LIU Yu*Employee Representative Supervisor*

Mr. LIU Yu has been the Bank's employee representative Supervisor of the Bank since August 2010 and is currently the general manager of our Risk Management Division. From January 2008 to June 2008, Mr. Liu was deputy general manager of Risk Management Division of Chongqing Rural Credit Cooperative Union. Prior to joining the Bank, Mr. Liu held various positions in the Cooperative Financial Institution Supervision Section of Chongqing Supervision Bureau from December 2003 to January 2008, including deputy researcher for supervision and chief of supervisory section 2, chief of supervisory section 1; and also held various positions in Cooperative Financial Institution Regulatory Section of Chongqing Operational Management Division of the PBOC from December 1997 to December 2003, including chief of miscellaneous section and deputy chief of supervisory section 1. Mr. Liu worked for the Fuling branch of the PBOC from August 1994 to December 1997. Mr. Liu obtained a bachelor of arts degree from Chongqing Normal University in 1994 and is currently an economist.

3. Senior Management of the Bank

For the biography of **Mr. TAN Yuansheng**, please refer to "Directors" in this section.

BAI Guiting*Vice President*

Mr. BAI Guiting has been a vice president and member of the Party committee of the Bank since June 2008. He was the deputy director and a member of the Party committee of the Chongqing Rural Cooperative Union from February 2000 to June 2008. Prior to joining the Bank, Mr. Bai was the deputy director of the Cooperative Financial Institutions Supervision Section of the PBOC Chongqing Operations Office from January 1999 to February 2000; the deputy division director of the Agricultural Financing Division of the PBOC Chongqing Operations Office from November 1997 to January 1999; an assistant to the director at the Leading Group for Reform of Chongqing Rural Financial System from October 1996 to November 1997; and deputy division director of the Credit Cooperative Division of Agricultural Bank of China Chongqing branch and the director of suburban sales department of the Chongqing Rural Credit Cooperative from May 1995 to October 1996. Mr. Bai was the director of the suburban sales department of the Chongqing Rural Credit Cooperative from October 1993 to May 1995. Mr. Bai worked for the Chongqing branch credit cooperative of the Agricultural Bank of China from September 1985 to October 1993, during which he studied at the department of the agricultural credit management of the Changchun Cadre Institute of the Agricultural Bank general headquarters from September 1988 to July 1989 before graduation. From October 1975 to September 1985, Mr. Bai worked at several banks and credit cooperatives as an accountant and cashier. Mr. Bai graduated from the Correspondence College of Chongqing Municipal Party Committee, majoring in Economics and Management in 1998 and is currently a senior economist accredited by Agricultural Bank of China Limited.

WANG Rong

Vice President

Mr. WANG Rong has been a vice president and member of the party committee of the Bank since June 2008. He was the deputy director and a member of the Party committee of the Chongqing Rural Credit Cooperative Union from May 2004 to June 2008, and was the chairman, director and secretary of the Party committee of Chongqing Jiulongpo Rural Credit Cooperative Union from October 1996 to May 2004. Prior to joining the Bank, Mr. Wang served as the leader of Agricultural Bank of China Chongqing Jiulongpo branch Discipline Inspection Team of the Party Organization from August 1994 to October 1996. Mr. Wang graduated from the Correspondence College of Chongqing Municipal Party Committee majoring in Public Finance in 1998 and is currently a senior economist accredited by Chongqing Municipal Government.

Mr. YANG Xiaotao

Vice President

Mr. YANG Xiaotao, has been a vice president and member of the Party committee of the Bank since June 2008. From July 2003 to June 2008, Mr. Yang held a number of positions in the Chongqing Rural Credit Cooperative Union, including the deputy director-general, member of the Party committee, the director and secretary of the Party committee of Chongqing Changshou District Rural Credit Cooperative Union. Prior to joining the Bank, Mr. Yang held a number of positions at Agricultural Bank of China from November 1979 to July 2003. In that time, he has served as vice president for Chongqing Fuling Branch; president and secretary of the party committee of the Wulong County branch; vice president of the Wulong County branch. Mr. Yang graduated from the Correspondence College of Chongqing Municipal Party Committee majoring in law in 1998 and is currently a senior economist accredited by Chongqing Municipal Government.

LING Jiaquan

Chief Controller

Mr. LING Jiaquan, has been the chief controller and a member of the Party committee of the Bank since February 2009. Prior to joining the Bank, Mr. Ling assumed a number of positions as division director of the 3rd Site Inspection Division, division director of the 2nd State-owned Bank Regulation Division and Agricultural Bank Regulation Division at Banking Regulatory Commission Chongqing Bureau from October 2003 to December 2008. Mr. Ling also held a number of positions at the Chongqing business management department of the PBOC Chongqing Operations Office from August 1988 to October 2003 including, the division director and deputy division director of the Regulation Division of Agricultural Banks as well as deputy division director of the 1st Bank Regulation Division (銀行監管一處) and deputy division director of the 2nd Bank Regulation Division (銀行監管二處). Mr. Ling worked for the Chongqing Yuzhong sub-branch of the Industrial and Commercial Bank of China from June 1984 to August 1988. Mr. Ling worked for the Chongqing Yuzhong sub-branch of the PBOC from December 1972 to June 1984. Mr. Ling graduated from the Correspondence College of Centre Party Committee in 1998 majoring in economic management and is currently an accountant.

YUAN Xiaobo

Deputy secretary to the Party committee, secretary to the discipline committee

Mr. YUAN Xiaobo, has been a deputy secretary to the Party committee of the Bank since December 2008. Mr. Yuan is currently the deputy secretary to the Party committee and secretary to the discipline committee of the Bank. Prior to joining the Bank, Mr. Yuan was the division director (training division, human resources division) of Entrepreneur administration Division of Chongqing State-owned Assets Supervision from October 2003 and December 2008. Mr. Yuan was principal staff member, research assistant and deputy division director of the Cadres Division and the principal member of the Working Committee of Industrial Transport and the Cadres Division of Enterprise Executive Committee of Chongqing Municipal Party Committee from June 1998 to October 2003. Mr. Yuan worked for the Chongqing Electronics Industry Authority from March 1992 to June 1998. Mr. Yuan worked at the State-owned 907 Factory from July 1984 to March 1992. Mr. Yuan obtained a Master's degree in Project Management from Chongqing University in 2008 and is currently an economist.

SUI Jun

Vice President

Mr. SUI Jun has been a vice president and a member of the Party committee of the Bank since February 2009. Mr. Sui served as a general manager of the sales department of the headquarters of the Bank from August 2008 to December 2008. He served as the president of Jiangjin sub-branch of the Bank from June 2008 to August 2008. He was the director-general and secretary of the Party committee of Jiangjin Rural Credit Cooperatives Union of Chongqing from April 2004 to June 2008. Prior to joining the Bank, Mr. Sui held several positions at China Construction Bank Nancong branch from January 1994 to April 2004 including, general and deputy general manager of the sales department. Mr. Sui worked at the Guangan sub-branch of the Construction Bank of China from July 1990 to January 1994. Mr. Sui attended the Southwestern University of Finance and Economics and obtained a bachelor's degree in Agricultural Finance and Economics in 1990, and an Executive Master of Business Administration (EMBA) degree from Chongqing University in June 2010. He is currently a senior economist accredited by Chongqing Municipal Government.

Secretary to the Board and Joint Company Secretary

Mr. SUI Jun has been the Secretary to the Board and Joint Company Secretary of the Bank since August 2010. For Mr. Sui's biography, please refer to section headed "Senior Management".

Joint Company Secretary

CHENG Pik Yuk, aged 53, is a Corporate Services Director of Tricor Services Limited providing corporate secretarial services to various companies. Ms. Cheng has worked in the company secretarial departments of a number of international accounting firms and has over 25 years of experience in the company secretarial field. She has been providing corporate secretarial services to listed companies and multi-national groups. Ms. Cheng is a Fellow of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries ("HKICS") and is also a holder of the Practitioner's Endorsement of HKICS.

Report of The Board of Directors

The Board of the Bank is pleased to present its report together with the audited financial statements of the Group for the year ended December 31, 2010.

PRINCIPAL ACTIVITIES

The Group is principally engaged in a range of banking services and related financial services in China.

PROFIT AND DIVIDENDS

The income of the Group for the year ended December 31, 2010 and the Group's financial position as at that date are set out in the "Consolidated Financial Statements" of this Annual Report.

Pursuant to the resolutions passed at the 2009 annual general meeting on May 26, 2010, the Bank has paid a final cash dividend of RMB6 cents per share (tax inclusive) for 2009, in the aggregate amount of RMB360 million, to all its shareholders who were registered as members of the Bank on December 31, 2009.

Pursuant to the resolutions passed at the 2010 second extraordinary general meeting on November 26, 2010, the Bank distributed special dividends to the pre-IPO shareholders. A cash dividend of RMB0.06 per share (tax inclusive) was distributed to the shareholders of the original 6 billion shares, and RMB0.0436 per share (tax inclusive) was distributed to shareholders of 1 billion shares which were newly issued at the end of March 2010, totalling RMB403.6 million.

As the Bank was listed in Hong Kong on December 16, 2010 and given the short period of time commencing from its listing to the date of financial year end, the Board did not propose any dividends for the year ended December 31, 2010. This proposal will be submitted for approval at 2010 annual general meeting.

The amounts of cash dividends and ratios of cash dividends to profit for the year of the Bank for the previous three years are as follows:

<i>(RMB, in million)</i>	2009	2008	2007
Cash dividends	360.0	232.1	N/A ¹
As a percentage of profit for the year	19.06%	11.63%	N/A ¹

1. This index was not applicable as the Bank was a secondary legal entity prior to its establishment in June 2008.

RESERVES

Please refer to the consolidated statement of changes in shareholder's equity for details of the movements in the reserves of the Group for the year ended December 31, 2010.

SUMMARY OF FINANCIAL INFORMATION

Please refer to the "Financial Highlights" of this annual report for the summary of the operating results, assets and liabilities of the Group for the three years ended December 31, 2010.

DONATIONS

Donations made by the Group during the year ended December 31, 2010 for charitable and other purposes were RMB20.74 million.

PROPERTY AND EQUIPMENT

Please refer to Note "Property and Equipment" to the "Consolidated Financial Statements" of this Annual Report for details of movements in the property and equipment of the Group for the year ended December 31, 2010.

RETIREMENT BENEFITS

Please refer to Note "Accrued Staff Costs" to the "Consolidated Financial Statements" of this Annual Report for details of the retirement benefits provided to employees of the Group.

ULTIMATE PARENT COMPANY AND SUBSIDIARIES

Please refer to this report "Substantial Shareholders of the Bank" in the "Changes in Share Capital and Particulars of Shareholders" and related notes to the "Consolidated Financial Statements" of this Annual Report for details of the Bank's ultimate parent company and subsidiaries respectively as at December 31, 2010.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE BANK

Neither the Bank nor its subsidiaries had purchased, sold or redeemed any listed securities of the Bank during the reporting period.

PRE-EMPTIVE RIGHTS

Neither the Articles of Association of the Bank nor relevant PRC laws has such provisions under which the Bank's shareholders have pre-emptive rights. The Articles of Association provide that if the Bank wishes to increase its capital, it may issue new shares to non-specified investors, may place or allot new shares to existing shareholders, issue new shares to target investors, or through other means as permitted by laws or administrative regulations.

MAJOR CUSTOMERS

In 2010, the aggregate amount of interest income and other operating income generated from the five largest customers of the Bank represented an amount not exceeding 30% of the total interest income and other operating income of the Bank.

SHARE CAPITAL

Please refer to note "Share Capital" to the "Consolidated Financial Statements" of this Annual Report for details of the movement in share capital of the Bank during the year.

USE OF THE PROCEEDS

During the reporting period, the Bank raised RMB1.91 billion of proceeds from placing 1 billion Domestic Shares to target investors, and raised HK\$11.474 billion of proceeds through public offer of 2,185,509,601 H shares in Hong Kong. After payment of HK\$974 million of proceeds from sale of shares which were transferred by our state-owned shareholders to National Council for Social Security Fund, all remaining proceeds were used to strengthen our capital base for supporting our ongoing business growth as committed by the Bank.

TOP TEN SHAREHOLDERS AND THEIR SHAREHOLDINGS

The top ten shareholders of the Bank and their respective shareholdings at the end of 2010 are stated in "Changes in Share Capital and Particulars of Shareholders" of this Annual Report.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The directors of the Bank during the year and up to the date of this report were:

Executive Directors

Liu Jianzhong (*Chairman*)

Tan Yuansheng (*President*)

Non-executive Directors

Tao Jun

Tu Jianhua

Wen Honghai

Wang Yongshu

Gao Xiaodong

Wu Xiufeng

Independent Non-executive Directors

Xu Bin

Pu Yongjian

Ran Hua

Please refer to the “Profiles of Directors, Supervisors and Senior Management” of this Annual Report for details of directors, supervisors and senior management of the Bank.

CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Bank has received from each of the independent non-executive directors an annual confirmation of his/her independence. The Bank considers that all of the independent non-executive directors are in compliance with the independence guidelines set out in Rule 3.13 of the Hong Kong Listing Rules, and are independent accordingly.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK

As at December 31, 2010, the interests or short positions of the directors and supervisors of the Bank and their associates in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”) of Hong Kong) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules were as follows:-

Domestic Shares

Name	Capacity	Number of domestic shares held <i>(Note)</i>	% of the total issued domestic shares	% of the total issued share capital of the Bank
Tan Yuansheng	Beneficial owner	6,300 (L)	0.00009 (L)	0.00007 (L)
Zuo Ruilan	Beneficial owner	11,900 (L)	0.00017 (L)	0.00013 (L)

Note: (L) — long position

Other than as disclosed above, none of the directors or supervisors of the Bank nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Bank or any of its associated corporations as at December 31, 2010.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGERS' FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS

There are no relationships among the directors, supervisors and senior managers of the Bank, including financial, business, family or other material relationships.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Bank, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors and supervisors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

Save for those disclosed under Continuing Connected Transactions in this report, no director or supervisor of the Bank had a material interest, whether directly or indirectly, in material contracts in relation to the Group's businesses to which the Bank, its holding company, or any of its subsidiaries or fellow subsidiaries was a party on December 31, 2010 or at any time during the year (excluding service contracts).

None of the directors and supervisors of the Bank entered into service contracts with the Bank that cannot be terminated by the Bank or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

None of the directors and supervisors of the Bank has any interest in businesses that constitutes or may compete, directly or indirectly, with the business of the Bank.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2010, the interests and short positions of substantial shareholders (pursuant to SFO), other than directors and supervisors, in the shares of the Bank as recorded in the register required to be kept under section 336 of the SFO were as follows:

Domestic Shares

Name	Capacity	Number of domestic shares held <small>(Note)</small>	% of the total issued domestic shares	% of the total share capital of the Bank
Chongqing Yufu Assets Management Company Limited (重慶渝富資產經營管理有限公司)	Beneficial owner	638,525,580 (L)	9.37 (L)	7.09 (L)
Chongqing City Construction Investment Company (重慶市城市建設投資公司)	Beneficial owner	610,248,019 (L)	8.96 (L)	6.78 (L)
Loncin Holdings Limited (隆鑫控股有限公司)	Beneficial owner	570,000,000 (L)	8.36 (L)	6.33 (L)
Chongqing Transport and Travel Investment Group Limited Company (重慶交通旅游投資集團有限公司)	Beneficial owner	429,636,497 (L)	6.30 (L)	4.77 (L)

Note: (L) — long position

H Shares

Name	Capacity	Number of H shares held ⁽¹⁾	% of the total issued H shares	% of the total share capital of the Bank
Nomura Holdings, Inc.	Interest of controlled corporations	160,526,000 (L)	7.35 (L)	1.78 (L)
		327,826,440 (S)	15.00 (S)	3.64 (S)
	Interests held jointly with another person	327,826,440 (L) ⁽²⁾	15.00 (L)	3.64 (L)
Morgan Stanley	Interest of controlled corporations	19,268,000 (L)	0.88 (L)	0.21 (L)
	Interest held jointly with another person	327,826,440 (L) ⁽²⁾	15.00 (L)	3.64 (L)
AllianceBernstein L.P.	Interest of controlled corporations	199,613,000 (L)	9.13 (L)	2.22 (L)
Capital Research and Management Company	Investment manager	175,497,000 (L)	8.03 (L)	1.95 (L)
Al Nehayan Mansoor Bin Zayed Bin Sultan	Interest of controlled corporations	147,995,000 (L)	6.77 (L)	1.64 (L)
Hang Seng Bank Trustee International Limited	Trustee	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
Cheah Company Limited	Interest of controlled corporations	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
Cheah Capital Management Limited	Interest of controlled corporations	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
Value Partners Group Limited	Interest of controlled corporations	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
Value Partners Limited	Investment manager	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
Cheah Cheng Hye	Founder of a discretionary trust	118,396,000 (L) ⁽³⁾	5.41 (L)	1.32 (L)
To Hau Yin	Interest of Spouse	118,396,000 (L) ⁽⁴⁾	5.41 (L)	1.32 (L)

Notes:

- (L) — long position, (S) — short position.
- These H shares are held jointly by Nomura Holdings, Inc. and Morgan Stanley.
- These H shares are held by Value Partners Limited, a wholly-owned subsidiary of Value Partners Group Limited, which is in turn owned 28.69% by Cheah Capital Management Limited, which is a wholly-owned subsidiary of Cheah Company Limited. The entire issued capital of Cheah Company Limited is owned by Hang Seng Bank Trustee International Limited as the trustee of The C H Cheah Family Trust. Mr. Cheah Cheng Hye is the founder of The C H Cheah Family Trust and also a director of Value partners Limited.
- To Hau Yin is the spouse of Cheah Cheng Hye and is deemed to be interested in the shares held by Cheah Cheng Hye.

CORPORATE GOVERNANCE

The Bank is committed to maintaining a high level of corporate governance. As the Bank was just listed on the Hong Kong Stock Exchange on December 16, 2010, the code provisions of the Code on Corporate Governance Practices did not apply to the Bank before the Listing Date. The manner in which the principles and code provisions in the CG Code are applied and implemented by the Bank is set out in the “Corporate Governance Report” of this Annual Report.

CONNECTED TRANSACTIONS

Upon the listing of our H Shares on the Hong Kong Stock Exchange, transactions between the Bank and our connected persons (as defined under the Hong Kong Listing Rules) will constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules.

The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from the definition of related parties under International Accounting Standard 24, “Related Party Disclosures”, and its interpretations by the IASB.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

We provide commercial banking services and products in the ordinary and usual course of our business to the public in China, which includes certain of our Directors, Supervisors and/or their respective associates. These transactions are entered into on normal commercial terms in the ordinary and usual course of our business, and are exempted from the reporting, annual review disclosure and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

COMMERCIAL BANKING SERVICES PROVIDED IN THE ORDINARY AND USUAL COURSE OF BUSINESS — DEPOSITS TAKING

We take deposits in the ordinary and usual course of our business from certain of our Directors, Supervisors and/or their respective associates at normal deposit rates and on normal commercial terms.

The provision of commercial banking services and products by us to our connected persons in the ordinary and usual course of our business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties (including other comparable employees of ours who are not connected persons) will be exempt continuing connected transactions under Rule 14A.65(4) of the Hong Kong Listing Rules, namely financial assistance provided by a connected person in the form of deposits placed with a listed issuer for the benefit of the listed issuer on normal commercial terms (or better to the listed issuer) where no security over the assets of the listed issuer is granted in respect of the financial assistance, and thus will be exempt from the reporting, announcement and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Hong Kong Listing Rules.

COMMERCIAL BANKING SERVICES PROVIDED IN THE ORDINARY AND USUAL COURSE OF BUSINESS — LOANS AND CREDIT FACILITIES TO CONNECTED PERSONS

We extend loans and credit facilities in the ordinary and usual course of our business to certain of our Directors, Supervisors and/or their respective associates on normal commercial terms with reference to prevailing market rates, which constitute continuing connected transactions for us under the Listing Rules.

The provision of loans and credit facilities by the Bank to our connected persons (including our Directors, Supervisors and their respective associates) are in the ordinary and usual course of our business and on normal commercial terms and conditions available to independent third parties. Therefore, these transactions will constitute exempt continuing connected transactions pursuant to Rule 14A.65(1) of the Hong Kong Listing Rules (namely, financial assistance provided by a listed issuer in its ordinary and usual course of business for the benefit of a connected person on normal commercial terms), and thus, will be exempt from the reporting, announcement and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Hong Kong Listing Rules.

COMMERCIAL BANKING SERVICES PROVIDED IN THE ORDINARY AND USUAL COURSE OF BUSINESS — OTHER BANKING SERVICES AND PRODUCTS

We provide various commercial banking services and products (including credit/debit cards and wealth management products) in the ordinary and usual course of our business to certain of our Directors, Supervisors and/or their respective associates at normal prescription fees, service fees and charges and on normal commercial terms and conditions.

As none of the applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) in respect of the annual aggregate service and/or product fees paid to us by a particular connected person and its associates exceeds 0.1%, these transactions constitute exempt continuing connected transactions pursuant to Rule 14A.33(3) of the Hong Kong Listing Rules, and thus, will be exempt from the reporting, announcement and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Hong Kong Listing Rules.

REMUNERATION POLICY FOR THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank has endeavored to improve its remuneration management measures and performance assessment systems for its directors, supervisors and senior management. The Bank's remuneration policy for directors, supervisors and senior management is based on the principle of combining incentives and disciplines, short-term incentives and long-term incentives, and market adjustment and governmental regulation, and has defined a structured remuneration system comprising basic annual salary, performance annual salary, mid-term and long-term incentives, allowances and welfare income. The Bank participates in the relevant PRC mandatory retirement schemes for its directors, supervisors and senior management and other employees. Since the state has not issued relevant policies, the Bank does not implement mid-term and long-term incentive plan for directors, supervisors and senior management.

SUFFICIENCY OF PUBLIC FLOAT

The Hong Kong Stock Exchange exercised its discretion under Rule 8.08(1)(d) of the Hong Kong Listing Rules and accepted the minimum percentage of shares held (from time to time) by the public in the issued share capital of the Bank be reduced to the relevant percentage of shares listed on the Hong Kong Stock Exchange in the form of H shares upon completion of the global offering (representing no less than 24% of our enlarged share capital immediately upon the global offering), provided that the value of H Shares held by the public shall not be less than HK\$1.5 billion. As at December 31, 2010, the public float of the Bank is 24.28%.

Based on information that is publicly available to the Bank and to the knowledge of the directors, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange throughout the period from the Listing Date of the Bank on the Hong Kong Stock Exchange to December 31, 2010.

Tax Relief (H-Share Holders):

In accordance with the Notice on Taxation of Stock (Options) Transfer Income and Dividends obtained by Foreign-invested Companies, Foreign Companies and Foreign Citizens (Guoshuifa [1993] No.045) published by the State Administration of Taxation, PRC, foreign individuals holding H Shares are exempted from paying personal income tax for dividends obtained from companies incorporated in PRC that issue H Shares on a provisional basis.

As stipulated by the Notice on Issues relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H-Share Holders Who are Overseas Non-resident Enterprise by Chinese Resident Enterprises (Guoshuihan [2008] No.897) published by the State Administration of Taxation, PRC, when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to their H-Share Holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%.

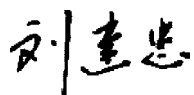
Under current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Bank.

Shareholders of the Bank are taxed or enjoy tax relief in accordance with the afore-mentioned regulations.

AUDITORS

Deloitte Touche Tohmatsu CPA Ltd. and Deloitte Touche Tohmatsu have been appointed as our domestic and overseas auditors for 2010.

On behalf of the Board



Liu Jianzhong
Chairman

March 25, 2011



Report of the Board of Supervisors

In 2010, pursuant to the relevant provisions of the Company Law of the People's Republic of China and the Articles of Association of Chongqing Rural Commercial Bank Co., Ltd., the board of supervisors earnestly performed their duties, and conducted supervision over the Board and the senior management and their members on their performance and due diligence as well as supervision over the finance, internal control and risk management of the Bank by means of attending meetings as observers, conducting investigation and analysis, reviewing information, interviews and seminars. Accordingly, the board of supervisors played an effective role in the supervision and check-and-balance, and safeguarded the interests of the shareholders and the Bank.

CONVENING OF THE MEETINGS

During the reporting period, the board of supervisors convened eight meetings in total, details of which were as follows:

On January 27, 2010, the 7th meeting of the first session of the board of supervisors was convened, at which Amendments to the Rules of Procedures for the Board of Supervisors and the Work Summary of the Board of Supervisors for 2009 and Working Plan for 2010 were considered and approved.

On February 19, 2010, the 8th (extraordinary) meeting of the first session of the board of supervisors was convened by means of written resolutions and correspondence, the Work Scheme for Concentrated Supervision and Inspection of the Board of Supervisors for 2009 was considered and approved.

On April 26, 2010, the 9th meeting of the first session of the board of supervisors was convened, at which the following reports were considered and approved: Work Report of the Board of Supervisors for 2009, Report on Appraisal of Supervisors and Duty Performance of External Supervisors for 2009 and Report on Concentrated Supervision and Inspection for 2009. In addition Tentative Measures for Information Communication of the Board of Supervisors were discussed at the meeting.

On August 10, 2010, the 10th meeting of the first session of the board of supervisors was convened, at which adjustment to employee supervisors was announced, and the Proposal on Adjustment to Members of Special Committees of the Board of Supervisors of Chongqing Rural Commercial Bank, and Tentative Measures for Information Work of the Board of Supervisors were considered and approved. In addition, the reports on construction of internal control system, auditing work for the first half of 2010 and legal case prevention and control for the first half of 2010 were debriefed at the meeting.

On September 15, 2010, the 11th meeting of the first session of the board of supervisors was convened by means of written resolutions and correspondence, at which the work schemes for implementation of MIME decision making system and special inspection of the Articles of Association were considered and approved.

On October 20, 2010, the 12th meeting of the first session of the board of supervisors was convened, at which departments of the Bank debriefed the implementation of MIME system and self-inspection of the Articles of Association.

On October 29, 2010, the 13th (extraordinary) meeting of the first session of the board of supervisors was convened by means of written resolutions and correspondence, report of the board of supervisors on implementation of MIME decision making system and special inspection of the Articles of Association was considered and approved.

On November 12, 2010, the 14th meeting of the first board of supervisors was convened, at which the proposal in relation to proposed increase of two supervisors by the board of supervisors was considered and approved. During the reporting period, the due diligence committee of the board of supervisors convened a meeting and reviewed a proposal; the internal control appraisal committee of the board of supervisors convened three meetings and reviewed three proposals.

MAJOR WORK

In 2010, in light of the economic and financial situation and the actual conditions of the Bank, the board of supervisors proactively carried out various supervisory activities in a down-to-earth manner in line with the central objectives of the Bank and timely followed up regulatory provisions and requirements on listing in Hong Kong.

Earnestly conducted supervision of the performance and due diligence. The board of supervisors focused on supervising the implementation of resolutions of the general meetings by the board of directors, the implementation of resolutions of the board of directors and the organization of operation and management by the senior management, and the diligent and lawful performance of duties by the directors and senior management. It conducted supervision over the corporate governance and operation, material operational decisions and their implementation, information disclosure and the performance of duties by directors and senior management by attending the general meetings, and attending the overall work meetings of the Bank, operation situation analysis meetings and president meetings convened by the board of directors and the senior management as observers. In light of new economic and financial conditions and regulatory requirements, the board of supervisors established Tentative Measures for Information Communication of the Board of Supervisors and strengthened information communication with the board of directors and senior management to improve supervision methods. After careful study, the board of supervisors made its comments on the performance of duties by the board of directors and its special committees, the senior management, directors and senior management in the year. It communicated relevant information to the board of directors and the senior management.

Devoted major efforts to strengthening supervision over financial affairs. The board of supervisors reviewed and considered regular reports, profits distribution plan and policies passed by the board of directors and presented related opinions of the board of supervisors. It supervised the performance of financial management duties by the board of directors and the senior management by communicating with external auditor institutions, debriefing reports from the finance departments of the Bank on financial expenses and expenditures, attending relevant meetings of the board of directors and the senior management as observers, arranging specific persons to attend annual financial accounting work meeting and reviewing and analyzing relevant financial and accounting information, internal audit reports of authenticity checking. Focusing on such key areas as having significant influence on financial reports and operating results, the board of supervisors organized relevant on-site inspections and off-site analysis, paid continuous attention to and made follow-up analysis of the comprehensive business plan and performance assessment. It presented opinions and recommendations on the preparation of financial reports and accounting and audit from a supervision perspective.

Implemented internal control supervision and inspection in a down-to-earth manner. In accordance with the guidance of “Focusing on Standards and Actual Effects”, the board of supervisors arranged and implemented annual concentrated supervision and special inspections on implementation of MIME Decision Making System and the Articles of Association. By insisting on combining internal inspections with audits from external intermediary institutions, combining on-site inspections with off-site inspections and combining quantitative analysis with qualitative analysis, the board of supervisors objectively assessed various operating achievements and the performance of senior management in 2009, and streamlined and analyzed 69 internal systems on material matters in 3 major categories and proposed 5 suggestions for the work of the board of supervisors. The board of supervisors attached importance to utilization of supervision achievements and timely gave risk warnings in respect of important issues or matters needing attention discovered in the course of supervision and inspection. The board of supervisors issued opinion letters to the board of directors and senior management in respect of issues discovered in the inspection and actively urged the rectification and implementation to enable the supervision achievements of the board of supervisors to be utilized sufficiently and effectively.

Constantly strengthened construction of the board of supervisors. Pursuant to the requirements on listing of H shares in Hong Kong, two new special committees including the Audit Committee and Nomination Committee were established and work division of the members was adjusted. The board of supervisors supplemented one external supervisor and one shareholder supervisor, thus increasing the number of supervisors to 9 from 7. In addition, one employee supervisor was changed. With more members joining in, the structure of the board of supervisors became more reasonable. The working rules of the board of supervisors have been improved in a continuous manner following the amendments to the Rules of Procedures of the Board of Supervisors and formulation of the Information Management Measures of the Board of Supervisors. All members of the board of supervisors acted in good faith, diligently performed their duties and lawfully exercised their powers. They actively attended general meetings and meetings of the board of supervisors as well as important meetings of the board of directors and senior management as observers, carefully reviewed meeting materials and information relating to the operation and management, participated in the study, discussion and review of proposals of the board of supervisors, and voiced opinions in an independent way. The board of supervisors also arranged supervisors to take part in various specific trainings to continually enhance supervisors' ability to perform their duties.

The board of directors and the senior management had given great support to the supervision work of the board of supervisors and thought highly of, and actively responded to, the reminders, opinions and recommendations of the board of supervisors, thus enabling the board of supervisors to play a constructive supervision role and make its contributions to the improvement of corporate governance and the promotion of healthy business development.

INDEPENDENT OPINIONS ON RELEVANT MATTERS OF THE BANK

Operations in Compliance with Laws and Regulations

During the reporting period, the Bank has been operating in compliance with relevant laws and regulations. Its decision making procedures complied with the provisions of laws, regulations and the Articles of Association of the Bank. The directors and senior management were faithful and honest, and diligent in carrying out their duties. They were not found to have contravened any laws, regulations or the Articles of Association of the Bank; neither did they commit any acts detrimental to the interests of the Bank.

Financial Reporting

The 2010 financial report of the Bank gave a true and fair view of the financial position and operating results of the Bank.

Use of Proceeds

During the reporting period, the Bank raised RMB1.91 billion of proceeds through placing 1 billion Domestic Shares to target investors, and raised HK\$11.474 billion of proceeds through public offering of 2,185,509,601 H shares in Hong Kong. After payment of HK\$974 million of proceeds from sale of shares which were transferred by our state-owned shareholders to National Council for Social Security Fund, all remaining proceeds were used to reinforce the Bank's capital base to sustain business growth of the Bank as committed by the Bank.

Acquisition and Sale of Assets

On November 15, 2010, the Bank entered into an asset purchase agreement with Chongqing Yufu Assets Management Company Limited, pursuant to which Chongqing Yufu Assets Management Company Limited agreed to acquire the 148 properties with title defects from the Bank, at the appraised value of RMB105.38 million. Such properties have a total gross floor area of approximately 83,813.63 square meters. The transaction was completed in December 2010.

During the reporting period, the board of supervisors was not aware of any insider transactions or any acts in acquisition or sale of assets detrimental to the interests of the shareholders of leading to a drain on the Bank's assets.

Connected Transactions

During the reporting period, the Bank's connected transactions have been conducted in accordance with relevant regulations and systems and the board of supervisors was not aware of any actions in the transactions that were detrimental to the interests of the Bank.

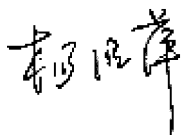
Internal Control

During the reporting period, the Bank continued to intensify and improve its internal control. The board of supervisors was not aware of any material defect in the Bank's internal control system and its implementation.

Performance of Social Responsibilities

During the reporting period, the Bank actively performed its social responsibilities and the board of supervisors had no dissents on the 2010 Report on Social Responsibilities of the Bank.

On behalf of the board of supervisors



YANG Mingping

President of the board of supervisors

March 25, 2011

CORPORATE GOVERNANCE

During the reporting period, the Bank continued to strengthen the construction of corporate governance mechanism, actively improved various systems such as internal control, and constantly enhanced corporate governance capability in strict compliance with laws and regulations as well as regulatory documents of regulatory authorities including the Company Law of the People's Republic of China and the Commercial Banking Law of the People's Republic of China and in line with actual conditions of the Bank.

Amendments to corporate governance documents. During the reporting period, according to relevant laws and regulations and regulatory documents, the Bank made amendments to the Articles of Association of Chongqing Rural Commercial Bank Co., Ltd. as a result of capital increase through issue of new shares to target investors, which was approved by CBRC Chongqing Bureau on March 26, 2010 through document Yu Yin Jian Fu [2010] No. 22; due to requirements of overseas listing, we amended the Articles of Association of Chongqing Rural Commercial Bank Co., Ltd. once again, which was approved by CBRC on August 3, 2010 through document Yin Jian Fu [2010] No. 367 and became effective after listing. During the reporting period, the Bank also amended the Rules of Procedures of the General Meeting of Chongqing Rural Commercial Bank Co., Ltd., the Rules of Procedures of the Board of Directors of Chongqing Rural Commercial Bank Co., Ltd. and the Rules of Procedures of the Board of Supervisors of Chongqing Rural Commercial Bank Co., Ltd.

Adjustment to composition of special committees of the board of directors. During the reporting period, the board of directors of the Bank adjusted the composition of Risk Management Committee, Remuneration Committee and Audit Committee in accordance with the relevant provisions of the Articles of Association of the Bank and actual needs of the Bank.

Adjustment to and co-option of members of the board of supervisors. During the reporting period, Mr. Liu Yu was elected as the employee representative supervisor of the Bank at the staff representative assembly of the Bank; Mr. Zhang Peng was elected as a shareholder representative supervisor of the Bank and Mr. Chen Huiming was elected as an external supervisor at the general meeting of the Bank in accordance with relevant requirements of laws.

Adjustment to composition of special committees of the board of supervisors. During the reporting period, the board of supervisors made corresponding adjustments to the composition of members of the internal control review committee, nomination committee and audit committee according to actual needs of the Bank

Code on corporate governance practices. The Bank has adopted our own corporate governance practices, which were fully in compliance with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in the Appendix 14 to the Hong Kong Stock Exchange Listing Rules. As the Bank was listed on December 16, 2010, the Code was not applicable to the Bank before listing. As of December 16, 2010, the Bank had complied with the most provisions of the Code.

MATERIAL CONNECTED TRANSACTIONS

As of the end of the reporting period, the loan balance of material connected transactions with related parties amounted to RMB3,992 million, accounting for 3.27% of the total loan of the Bank. Loans under the material connected transaction between the Bank and related parties have no negative impact on operating results and the financial position of the Bank.

MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

During the reporting period, there were no material legal proceedings or arbitration which had substantial impact on the operation activities of the Bank.

As of the end of 2010, pending legal proceedings in which the Bank was a defendant or a third party involved an amount of RMB11,421,200. In the opinion of the Bank, it will not have any material effect on our operating activities.

PENALTIES IMPOSED ON THE BANK AND DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

During the reporting period, the Bank, all directors, supervisors and senior management had no record of being subject to inspections, administrative penalties and circulating criticisms by China Securities Regulatory Commission or public censures by stock exchanges, or penalties by relevant regulatory bodies that posed significant impact on the Bank's operation.

PERFORMANCE OF UNDERTAKINGS BY THE BANK OR SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARES

As of the end of the reporting period, neither the Bank nor the shareholders holding more than 5% of the total shares in issue gave any undertakings.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the reporting period, the Bank has no material contracts to be performed.

ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

On November 15, 2010, the Bank entered into an asset purchase agreement with Chongqing Yufu Assets Management Company Limited, pursuant to which Chongqing Yufu Assets Management Company Limited agreed to acquire the 148 properties with title defects from the Bank, at the appraised value of RMB105.38 million. Such properties have a total gross floor area of approximately 83,813.63 square meters. The transaction was completed in December 2010.

PROGRESS IN IMPLEMENTATION OF EMPLOYEE SHARE INCENTIVE PLAN

During the reporting period, the Bank did not implement any employee share incentive plan.

Independent Auditor's Report

Deloitte.

德勤

TO THE MEMBERS OF
CHONGQING RURAL COMMERCIAL BANK CO., LTD.

重慶農村商業銀行股份有限公司

(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Chongqing Rural Commercial Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 149 to 286, which comprise the consolidated and Bank's statements of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

25 March, 2011

Consolidated Income Statement

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTES	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Interest income	5	11,473,378	8,702,929
Interest expense	5	(3,971,610)	(3,228,474)
Net interest income		7,501,768	5,474,455
Fee and commission income	6	308,909	148,833
Fee and commission expense	6	(23,133)	(12,090)
Net fee and commission income		285,776	136,743
Net trading (loss) gain	7	(46,181)	8,321
Other operating income, net	8	3,226	57,266
Operating income		7,744,589	5,676,785
Operating expenses	9	(3,910,064)	(3,190,672)
Impairment reversals (losses) on assets	11	45,208	(122,971)
Net gain on disposal of available-for-sale financial assets		106,432	121,402
Profit before tax		3,986,165	2,484,544
Income tax expense	12	(924,945)	(596,215)
Profit for the year		3,061,220	1,888,329
Attributable to:			
Equity holders of the Bank		3,064,176	1,888,329
Non-controlling interests		(2,956)	—
		3,061,220	1,888,329
Earnings per share (Expressed in RMB per share)			
— Basic	13	0.45	0.31

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Profit for the year	3,061,220	1,888,329
Other comprehensive income:		
Fair value gain on available-for-sale financial assets		
— fair value gain arising during the year	40,740	27,148
— amount reclassified to the profit or loss upon disposal of available-for-sale financial assets	(106,432)	(121,402)
Income tax relating to available-for-sale financial assets	16,423	23,563
Other comprehensive expense for the year (net of tax)	(49,269)	(70,691)
Total comprehensive income for the year	<u>3,011,951</u>	<u>1,817,638</u>
Total comprehensive income attributable to:		
Equity holders of the Bank	3,014,907	1,817,638
Non-controlling interests	(2,956)	—
Total comprehensive income for the year	<u>3,011,951</u>	<u>1,817,638</u>

Consolidated Statement of Financial Position

As At 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTES	THE GROUP 31.12.2010	THE BANK 31.12.2009
ASSETS			
Cash and balances with central bank	15	37,321,633	27,415,934
Deposits with banks and other financial institutions	16	17,220,237	10,154,410
Placements with other financial institutions	17	2,000,000	—
Financial assets held for trading	18	482,159	—
Financial assets designated as at fair value through profit or loss	19	8,046,043	6,548,592
Financial assets held under resale agreements	20	37,158,018	13,374,196
Loans and advances to customers	21	117,114,024	96,815,703
Available-for-sale financial assets	22	1,444,437	1,400,406
Held-to-maturity investments	23	36,708,860	24,207,259
Debt securities classified as receivables	24	21,219,865	15,274,116
Property and equipment	26	2,341,319	2,117,204
Deferred tax assets	36	1,307,604	1,263,923
Goodwill	27	440,129	440,129
Other assets	29	2,741,340	2,348,870
Total assets		285,545,668	201,360,742
LIABILITIES			
Deposits from banks and other financial institutions	30	11,711,766	4,135,578
Financial liabilities designated as at fair value through profit or loss	31	444,806	—
Financial assets sold under repurchase agreements	32	35,762,687	26,505,587
Due to customers	33	205,563,022	153,776,403
Accrued staff costs	34	2,166,165	1,814,470
Tax liabilities		443,391	225,260
Debt securities issued	35	2,300,000	2,300,000
Other liabilities	37	4,723,442	3,126,094
Total liabilities		263,115,279	191,883,392

Consolidated Statement of Financial Position

As At 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTES	THE GROUP 31.12.2010	THE BANK 31.12.2009
EQUITY			
Share capital	38	9,000,000	6,000,000
Capital reserve	39	8,202,717	586,229
Investment revaluation reserve	40	16,454	65,723
Surplus reserve	41	575,473	263,878
General and regulatory reserve	42	1,904,193	491,771
Retained earnings	43	<u>2,646,308</u>	<u>2,069,749</u>
Equity attributable to equity holders of the Bank		22,345,145	9,477,350
Non-controlling interests		<u>85,244</u>	—
Total equity		<u>22,430,389</u>	<u>9,477,350</u>
Total equity and liabilities		<u><u>285,545,668</u></u>	<u><u>201,360,742</u></u>

The consolidated financial statements on pages 149 to 286 were approved and authorised for issue by the Board of Directors on 25 March, 2011 and are signed on its behalf by:

LIU JIANZHONG
CHAIRMAN

TAN YUANSHENG
EXECUTIVE DIRECTOR AND PRESIDENT

Statement of Financial Position

As At 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTES	31.12.2010	31.12.2009
ASSETS			
Cash and balances with central bank	15	37,300,255	27,415,934
Deposits with banks and other financial institutions	16	16,978,635	10,154,410
Placement with other financial institutions	17	2,000,000	—
Financial assets held for trading	18	482,159	—
Financial assets designated as at fair value through profit or loss	19	8,046,043	6,548,592
Financial assets held under resale agreements	20	37,158,018	13,374,196
Loans and advances to customers	21	116,932,354	96,815,703
Available-for-sale financial assets	22	1,444,437	1,400,406
Held-to-maturity investments	23	36,708,860	24,207,259
Debt securities classified as receivables	24	21,219,865	15,274,116
Investments in subsidiaries	25	91,800	—
Property and equipment	26	2,320,344	2,117,204
Deferred tax assets	36	1,307,604	1,263,923
Goodwill	27	440,129	440,129
Other assets	29	2,738,982	2,348,870
Total assets		<u>285,169,485</u>	<u>201,360,742</u>
LIABILITIES			
Deposits from banks and other financial institutions	30	11,678,858	4,135,578
Financial liabilities designated as at fair value through profit or loss	31	444,806	—
Financial assets sold under repurchase agreements	32	35,762,687	26,505,587
Due to customers	33	205,304,192	153,776,403
Accrued staff costs	34	2,165,604	1,814,470
Tax liabilities		443,391	225,260
Debt securities issued	35	2,300,000	2,300,000
Other liabilities	37	4,721,725	3,126,094
Total liabilities		<u>262,821,263</u>	<u>191,883,392</u>

Statement of Financial Position

As At 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTES	31.12.2010	31.12.2009
EQUITY			
Share capital	38	9,000,000	6,000,000
Capital reserve	39	8,202,717	586,229
Investment revaluation reserve	40	16,454	65,723
Surplus reserve	41	575,473	263,878
General and regulatory reserve	42	1,904,193	491,771
Retained earnings	43	2,649,385	2,069,749
Total equity		<u>22,348,222</u>	<u>9,477,350</u>
Total equity and liabilities		<u>285,169,485</u>	<u>201,360,742</u>

The consolidated financial statements on pages 149 to 286 were approved and authorised for issue by the Board of Directors on 25 March, 2011 and are signed on its behalf by:

LIU JIANZHONG
CHAIRMAN

TAN YUANSHENG
EXECUTIVE DIRECTOR AND PRESIDENT

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

	Attributable to equity holders of the Bank							Non-controlling interests	Total	
	NOTES	Share capital	Capital reserve	Surplus reserve	General and regulatory reserve	Retained earnings	Investment revaluation reserve			Subtotal
THE BANK										
As at 1 January										
2009		6,000,000	586,229	70,175	491,771	607,222	136,414	7,891,811	—	7,891,811
Profit for the year		—	—	—	—	1,888,329	—	1,888,329	—	1,888,329
Other comprehensive income		—	—	—	—	—	(70,691)	(70,691)	—	(70,691)
Total comprehensive income for the year		—	—	—	—	1,888,329	(70,691)	1,817,638	—	1,817,638
Appropriation to surplus reserve	40	—	—	193,703	—	(193,703)	—	—	—	—
Dividends recognised as distribution	14	—	—	—	—	(232,099)	—	(232,099)	—	(232,099)
As at 31 December										
2009		<u>6,000,000</u>	<u>586,229</u>	<u>263,878</u>	<u>491,771</u>	<u>2,069,749</u>	<u>65,723</u>	<u>9,477,350</u>	<u>—</u>	<u>9,477,350</u>

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTES	Attributable to equity holders of the Bank							Non-controlling interests	Total
		Share capital	Capital reserve	Surplus reserve	General and regulatory reserve	Retained earnings	Investment revaluation reserve	Subtotal		
THE GROUP										
As at 1 January										
2010		6,000,000	586,229	263,878	491,771	2,069,749	65,723	9,477,350	—	9,477,350
Profit for the year		—	—	—	—	3,064,176	—	3,064,176	(2,956)	3,061,220
Other comprehensive income		—	—	—	—	—	(49,269)	(49,269)	—	(49,269)
Total comprehensive income for the year		—	—	—	—	3,064,176	(49,269)	3,014,907	(2,956)	3,011,951
Shares issued										
— Private placement	38	1,000,000	910,000	—	—	—	—	1,910,000	—	1,910,000
— H shares offering	38	2,000,000	6,706,488	—	—	—	—	8,706,488	—	8,706,488
Contribution from non-controlling shareholders		—	—	—	—	—	—	—	88,200	88,200
Appropriation to surplus reserve	40	—	—	311,595	—	(311,595)	—	—	—	—
Appropriation to general and regulatory reserve	41	—	—	—	1,412,422	(1,412,422)	—	—	—	—
Dividends recognised as distribution	14	—	—	—	—	(763,600)	—	(763,600)	—	(763,600)
As at 31 December										
2010		9,000,000	8,202,717	575,473	1,904,193	2,646,308	16,454	22,345,145	85,244	22,430,389

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTE	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
OPERATING ACTIVITIES			
Profit before tax		3,986,165	2,484,544
Adjustments for:			
Depreciation and amortisation		331,124	330,990
Impairment (reversals) losses on assets		(45,208)	122,971
Interest income arising from debt securities		(2,310,581)	(1,761,863)
Interest income arising from impaired financial assets		(29,319)	(28,539)
Interest expense arising from debt securities issued		126,500	—
Net gain on disposal of investment securities		(106,432)	(121,402)
Dividend income from investment securities		(2,189)	(5,625)
Net gain on disposal of property and equipment		(21,713)	(21,918)
Foreign exchange loss		60,332	—
Operating cash flows before movements in working capital		1,988,679	999,158
Increase in balances with central bank, deposits with banks and other financial institutions		(14,728,625)	(6,261,815)
Increase in placement with other financial institutions		(2,000,000)	—
(Increase) decrease in financial assets held under resale agreements		(23,999,214)	9,693,131
Increase in financial assets held for trading		(461,516)	—
Increase in loans and advances to customers		(20,273,819)	(24,690,880)
Increase (decrease) in financial assets sold under repurchase agreements		9,257,100	(8,264,061)
Increase in due to customers, deposits from banks and other financial institutions		59,808,708	38,453,951
Increase in other operating assets		(1,647,364)	(3,593,277)
Increase in other operating liabilities		1,551,074	38,614
Cash generated by operating activities		9,495,023	6,374,821
Income tax paid		(734,072)	(443,763)
Net cash from operating activities		8,760,951	5,931,058

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTE	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
INVESTING ACTIVITIES			
Cash received from disposal and redemption of investment securities		21,281,420	9,879,589
Cash received from disposal of property and equipment		252,316	62,239
Cash paid for purchase of investment securities		(39,681,790)	(19,054,410)
Cash paid for purchase of property and equipment		(739,383)	(473,944)
Interest income received from investment securities		2,003,566	1,601,416
		<u> </u>	<u> </u>
Net cash used in investing activities		(16,883,871)	(7,985,110)
FINANCING ACTIVITIES			
Net proceeds from issuance of shares			
— Private placement		1,910,000	—
— H shares offering		8,706,488	—
Contribution from non-controlling shareholders		88,200	—
Cash received from debt securities issued		—	2,300,000
Interest expenses paid for debt securities issued		(126,500)	—
Dividends paid to shareholders of the Bank		(366,726)	(219,936)
		<u> </u>	<u> </u>
Net cash from financing activities		10,211,462	2,080,064
		<u> </u>	<u> </u>
Net increase in cash and cash equivalents		2,088,542	26,012
Cash and cash equivalents at 1 January		28,722,945	28,696,933
Effect of foreign exchange rate changes		(61,033)	—
		<u> </u>	<u> </u>
Cash and cash equivalents at 31 December	44	<u><u>30,750,454</u></u>	<u><u>28,722,945</u></u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

1. GENERAL INFORMATION

Chongqing Rural Commercial Bank Co., Ltd. (the “Bank”) is a joint-stock commercial bank incorporated in the People’s Republic of China (“PRC”) on 27 June 2008. Prior to its incorporation, the business acquired by the Bank (the “Business”) was carried out by 38 rural credit cooperative unions and Chongqing Wulong Rural Cooperative Bank in Chongqing of the PRC (collectively, the “39 Rural Credit Unions”). All of them were managed by the Chongqing Rural Credit Cooperative Union (the “CRCCU”) at the municipal level of Chongqing, the PRC.

Pursuant to the promoters’ agreement among the promoters of the Bank, the Bank acquired all the assets and liabilities of the 39 Rural Credit Unions and the CRCCU on 27 June 2008, and the Business was transferred to the Bank.

The Bank was listed on the Stock Exchange of Hong Kong Limited on 16 December 2010.

The Bank has financial services certificate No.00177237 issued by the China Banking Regulatory Commission (the “CBRC”), and business license No.500000000001239 issued by the Chongqing Administration of Industry and Commerce.

The principal activities of the Bank and its subsidiaries (together referred to as the “Group”) comprise the provision of banking services, which includes deposits, loans, payment and settlement services, and other services as approved by the CBRC. The Bank did not have any subsidiaries during the year ended 31 December 2009. Hence, the comparative figures presented in these consolidated financial statements are financial statements of the Bank.

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Bank.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied, a number of new and revised standards, amendments and interpretations (“new or revised IFRSs”) issued by International Accounting Standards Board (“IASB”). Except as described below, the application of the new or revised IFRSs has had no material effect on the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

IFRS 3 (Revised) Business combinations

The Group applies IFRS 3 (Revised) “Business combinations” prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in IAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010. The application of IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to other IFRSs had no effect on the consolidated financial statements of the Group for the current or prior years.

Amendments to IAS 17 Leases

As part of Improvements to IFRSs issued in 2009, IAS 17 “Leases” has been amended in relation to the classification of leasehold land. Before the amendment to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to IAS 17 has removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The application of IAS 17 “Leases” had no effect on the consolidated financial statements of the Group for the current or prior years.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs 2010 ¹
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets ³
IFRS 9	Financial Instruments ⁴
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁵
IAS 24 (Revised)	Related Party Disclosures ⁶
IAS 32 (Amendments)	Classification of Rights Issues ⁷
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁶
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 July 2010.

³ Effective for annual periods beginning on or after 1 July 2011.

⁴ Effective for annual periods beginning on or after 1 January 2013.

⁵ Effective for annual periods beginning on or after 1 January 2012.

⁶ Effective for annual periods beginning on or after 1 January 2011.

⁷ Effective for annual periods beginning on or after 1 February 2010.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

IFRS 9 “Financial instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 “Financial instruments” (as revised in October 2010) adds requirements for financial liabilities and for derecognition.

Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Group’s consolidated financial statements for the financial year ending 31 December 2013 and that the application of the new Standard may have a significant impact on the future classification and measurement of the Group’s financial assets and liabilities.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and the subsidiaries controlled by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests of consolidated subsidiaries are presented separately from the Group's equity therein.

Total comprehensive income and expense of subsidiaries are attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

In the Bank's statement of financial position, its investments in the subsidiaries are stated at cost, less impairment losses, if any.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of sales related taxes. Specific recognition criteria for different nature of revenue are disclosed below.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within “interest income” and “interest expense” in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition. When calculating the effective interest rate, the Group estimates cash flows after considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

The Group earns fee and commission income from a range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued over that period when the services are rendered. For other services, fee and commission income are recognised when the transactions are completed.

Dividend income

Dividend income from investments is recognised when the Group’s right to receive payment is established.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Employee benefits

In the period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the Government, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period in which they are incurred. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Retirement benefits

The Group pays supplementary retirement benefits to retired employees and early retirement benefits to those employees who accept the early retirement arrangement.

Obligations of retirement benefits are calculated by an independent actuary using the projected unit credit method at the end of the reporting period. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's defined benefit obligations and fair value of plan assets arising from changes in actuarial assumptions are recognised in profit or loss for the year in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when an entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available for-sale financial assets and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the year in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are not either designated or classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, the objective evidence of impairment could include:

- (1) significant financial difficulty of the issuer or obligor;
- (2) a breach of contract, such as a default or delinquency in interest or principal payments;
- (3) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (4) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (5) the disappearance of an active market for that financial asset because of financial difficulties; or
- (6) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Impairment of financial assets carried at amortised cost

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the assets are impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

The carrying amount of the financial asset is reduced through the use of an allowance account. Changes in carrying amount of the allowance account are recognised in the profit or loss. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credit to profit or loss.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and accumulated in the investment revaluation reserve and there is objective evidence that asset is impaired, the cumulative loss that had been recognised directly in the investment revaluation reserve is reclassified to profit or loss.

Impairment loss on available-for-sale equity investments at fair value is not reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Impairment loss on available-for-sale equity investments at cost is not reversed.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated as at FVTPL on initial recognition.

The criteria for a financial liability to be classified as held for trading and designated as at FVTPL are the same as those for a financial asset to be classified as held for trading and designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entity, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when both of the following conditions are satisfied: (1) the Group has a legal right to set off the recognised amounts and the legal right is currently enforceable; and (2) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Repurchase agreements and agreements to resale

Financial assets sold subject to repurchase agreements continue to be recognised, and are recorded as “available-for-sale financial assets”, “debt securities classified as receivables”, “financial assets held for trading”, “held-to-maturity investments” or “loans and advances to customers” as appropriate. The corresponding liability is included in “financial assets sold under repurchase agreements”, as appropriate. Financial assets held under agreements to resell are recorded as “financial assets held under resale agreements”.

The difference between purchase and sale price is recognised as interest expense or income in profit or loss over the life of the agreements using the effective interest method.

Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment are as follows:

Classes	Useful live	Estimated residual value rates	Annual depreciation rates
Buildings	20 years	3%	4.85%
Electronic equipment	5 years	3%	19.40%
Motor vehicles	5 years	3%	19.40%
Furniture and fixtures	5 years	3%	19.40%

Properties in the course of construction for supply of services or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees. Such properties are classified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Land use rights

Land use rights are classified in other assets and amortised over a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreclosed assets

Foreclosed assets are initially recognised at fair value and subsequently measured at lower of its carrying amount and fair value less costs to sell at the end of the reporting period. When the fair value less costs to sell is lower than the foreclosed asset's carrying amount, an impairment loss is recognised in profit or loss.

Any gain or loss arising from disposal of the foreclosed asset is included in profit or loss in the year in which the item is disposed.

A foreclosed asset used by the Group is transferred to property and equipment at net carrying amount.

Cash and cash equivalents

Cash and cash equivalents refer to short term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, leasehold interests in land (i.e. land use rights) that is accounted for as operating leases and is amortised over the lease term on a straight-line basis.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Impairment on tangible and intangible assets

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Foreign currencies

In preparing the consolidated financial statements of the Group, transactions in currencies other than the functional currency of the Group (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the year in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

Notes to the Consolidated Financial Statements

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4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Bank are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period, or in the year of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key estimation uncertainty that the directors of the Bank have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements and/or in the next twelve months.

Impairment losses on loans and advances to customers

The directors of the Bank review its loan portfolio to assess impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the directors of the Bank make judgments as to whether there is any observable data indicating that there is an objective evidence of impairment which will have a measurable decrease in the estimated future cash flows from a portfolio of loans and advances. When the decrease may not have been identified individually or the individual loan is not significant, the directors of the Bank use estimates based on historical loss experience on a collective basis with similar credit risk characteristics to assess the impairment loss while estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group have the positive intention and ability to hold to maturity were classified as held-to-maturity investments. This classification requires significant judgement. In making this judgement, the directors of the Bank evaluate its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances (such as selling an insignificant amount close to maturity), it will be required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets.

Fair value of financial instruments

The directors of the Bank use the valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of recent transaction prices, discounted cash flows analysis or other valuation methods as appropriate. To the extent practical, models use only observable data, however areas such as the credit risk of the Bank and counterparties, volatilities and correlations require the directors of the Bank to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Supplementary retirement benefit and early retirement benefit obligation

The directors of the Bank recognise liabilities in connection with retirement benefits of employees using the projected unit credit method based on various assumptions, including the discount rate and average medical expense increase rate for early retirement and other factors. Actual results may differ from the result of the projected amount. Any difference between the actual result or changes in assumptions may affect the amount of expense recognised in profit or loss and the corresponding liability.

Taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the year during which such a determination is made.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

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5. NET INTEREST INCOME

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Interest income		
Loans and advances to customers	7,110,093	6,160,730
Including: Corporate loans and advances	4,027,696	3,269,327
Personal loans and advances	2,742,372	2,219,908
Discounted bills	340,025	671,495
Placements with other financial institutions	30,991	—
Debt securities classified as receivables	977,405	582,092
Held-to-maturity investments	1,280,917	1,085,308
Balances with central bank	447,388	312,318
Financial assets held under resale agreements	870,503	214,294
Deposits with banks and other financial institutions	145,360	102,872
Available-for-sale financial assets	52,259	94,463
Financial assets held for trading	121,504	4,681
Financial assets designated as at fair value through profit or loss	436,958	146,171
Subtotal	<u>11,473,378</u>	<u>8,702,929</u>
Interest expense		
Due to customers	(2,607,667)	(2,528,514)
Deposits from banks and other financial institutions	(221,343)	(76,635)
Financial assets sold under repurchase agreements	(1,016,100)	(623,094)
Debt securities issued	(126,500)	—
Others	—	(231)
Subtotal	<u>(3,971,610)</u>	<u>(3,228,474)</u>
Net interest income	<u>(7,501,768)</u>	<u>5,474,455</u>
Included within interest income		
Interest income on listed investments	1,518,325	1,233,762
Interest income on unlisted investments	9,955,053	7,469,167
	<u>11,473,378</u>	<u>8,702,929</u>

Listed investments included securities traded on the China Domestic Interbank Bond Market and securities listed on exchanges.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

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6. NET FEE AND COMMISSION INCOME

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Fee and commission income		
Agency commissions	103,333	76,409
Bank card fees	54,310	36,807
Custodian and other fiduciary service fees	16,773	14,037
Settlement and clearing fees	34,252	11,586
Consultancy and advisory fees	90,908	8,634
Others	9,333	1,360
Subtotal	<u>308,909</u>	<u>148,833</u>
Fee and commission expense		
Bank card fees	(11,349)	(8,230)
Settlement and clearing fees	(5,166)	(370)
Other service fees	(6,618)	(3,490)
Subtotal	<u>(23,133)</u>	<u>(12,090)</u>
Total	<u><u>285,776</u></u>	<u><u>136,743</u></u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

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7. NET TRADING (LOSS) GAIN

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Net (loss) gain on held-for-trading debt securities	<u>(46,181)</u>	<u>8,321</u>

8. OTHER OPERATING INCOME, NET

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Dividend income from listed available-for-sale investments	—	4,090
Dividend income from unlisted available-for-sale investments	2,189	1,535
Net gain on disposal of property and equipment	21,713	21,918
Rental income	18,309	26,399
Net gain (loss) on disposal of foreclosed assets	9,977	(3,470)
Exchange (loss) gain	(58,695)	828
Others	<u>9,733</u>	<u>5,966</u>
Total	<u>3,226</u>	<u>57,266</u>

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

9. OPERATING EXPENSES

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Staff costs <i>(note)</i>	2,341,077	1,809,724
General operating and administrative expenses	609,433	542,328
Business tax and surcharges	471,538	396,477
Depreciation and amortisation	331,124	330,990
Auditor's remuneration	1,500	1,500
Others	155,392	109,653
	<u>3,910,064</u>	<u>3,190,672</u>

Note:

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Salaries, bonuses and allowances	1,574,001	1,341,675
Staff welfare	90,771	102,959
Social insurance	179,522	174,122
Housing funds	135,628	113,679
Labour union fees and staff education expenses	55,775	46,958
Supplementary retirement benefits	120,070	23,920
Early retirement benefits	185,310	6,411
	<u>2,341,077</u>	<u>1,809,724</u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the directors' and supervisors' emoluments are as follows (in thousands of RMB):

THE GROUP AND BANK

2010

Item	Fees	Basic salaries, allowances and benefits in kind	Contribution to pension schemes	Bonuses	Total
Executive directors					
Liu JianZhong	—	88	36	650	774
Tan YuanSheng	—	87	36	651	774
Independent non-executive directors					
Xu Bin	75	—	—	—	75
Pu YongJian	75	—	—	—	75
Ran Hua	75	—	—	—	75
Non-executive directors					
Tao Jun	38	—	—	—	38
Tu JianHua	38	—	—	—	38
Wen HongHai	38	—	—	—	38
Wang YongShu	38	—	—	—	38
Gao XiaoDong	38	—	—	—	38
Wu XiuFeng	38	—	—	—	38
Supervisors					
Yang MingPing	—	79	36	586	701
Zeng JianWu	25	—	—	—	25
Zuo RuiLan	25	—	—	—	25
Chen FangMing	25	—	—	—	25
Dong YunLing	50	—	—	—	50
Li Zhen	—	47	18	257	322
Zhang YiQiao	—	76	36	498	610
Liu Yu	—	31	15	213	259
Zhang Peng	3	—	—	—	3
Chen HuiMing	5	—	—	—	5
Total	586	408	177	2,855	4,026

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

THE BANK

2009

Item	Fees	Basic salaries, allowances and benefits in kind	Contribution to pension schemes	Bonuses	Total
Executive directors					
Liu JianZhong	—	111	33	607	751
Tan YuanSheng	—	111	33	607	751
Independent non-executive directors					
Xu Bin	75	—	—	—	75
Pu YongJian	75	—	—	—	75
Ran Hua	75	—	—	—	75
Non-executive directors					
Tao Jun	38	—	—	—	38
Tu JianHua	38	—	—	—	38
Wen HongHai	38	—	—	—	38
Wang YongShu	38	—	—	—	38
Gao XiaoDong	38	—	—	—	38
Wu XiuFeng	38	—	—	—	38
Supervisors					
Yang MingPing	—	99	33	532	664
Zeng JianWu	25	—	—	—	25
Zuo RuiLan	25	—	—	—	25
Chen FangMing	25	—	—	—	25
Dong YunLing	50	—	—	—	50
Li Zhen	—	80	33	276	389
Zhang YiQiao	—	78	33	276	387
Total	578	479	165	2,298	3,520

Directors' and supervisors' bonuses were paid quarterly and were determined by reference to the performance of the Group and each individual.

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For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the current year and prior year as follows:

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Basic salaries and allowances	360	469
Bonuses	10,100	3,857
Contribution to pension schemes	183	169
Total	<u>10,643</u>	<u>4,495</u>

Emoluments of the individuals were within the following bands:

	Number of individuals	
	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
HKDnil–HKD1,000,000	—	4
HKD1,000,001–HKD1,500,000	1	1
HKD1,500,001–HKD2,000,000	2	—
HKD2,000,001–HKD2,500,000	—	—
HKD2,500,001–HKD3,000,000	—	—
HKD3,000,001–HKD3,500,000	—	—
HKD3,500,001–HKD4,000,000	2	—

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For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

10. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Five highest paid individuals (Continued)

During the year, no emolument was paid by the Group to any of the directors, supervisors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or supervisors waived any emoluments during the year.

11. IMPAIRMENT (REVERSALS) LOSSES ON ASSETS

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Loans and advances to customers		
Net additions	1,510,392	1,882,879
Recovery of loans	<u>(1,505,575)</u>	<u>(1,765,347)</u>
Subtotal	4,817	117,532
Foreclosed assets	(4,780)	5,439
Other assets	<u>(45,245)</u>	<u>—</u>
Total	<u><u>(45,208)</u></u>	<u><u>122,971</u></u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

12. INCOME TAX EXPENSE

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Income tax expense comprises:		
Current income tax		
— PRC Enterprise Income Tax	952,203	410,194
Deferred tax (note 36)	<u>(27,258)</u>	<u>186,021</u>
Total	<u><u>924,945</u></u>	<u><u>596,215</u></u>

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profit for both years.

The tax charges for the year can be reconciled to the profit per the consolidated income statement as follows:

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Profit before tax	<u><u>3,986,165</u></u>	<u><u>2,484,544</u></u>
Tax calculated at applicable statutory tax rate of 25%	996,541	621,136
Tax effect of expenses not deductible for tax purpose	47,913	36,035
Tax effect of income not taxable for tax purpose	<u>(119,509)</u>	<u>(60,956)</u>
Income tax expense	<u><u>924,945</u></u>	<u><u>596,215</u></u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

13. EARNINGS PER SHARE

The calculation of basic earnings per share is as follows:

	THE GROUP Year ended 31.12.2010	THE BANK Year ended 31.12.2009
Earnings:		
Profit for the year attributable to equity holders of the Bank	<u>3,064,176</u>	<u>1,888,329</u>
Numbers of shares		
Weighted average number of shares in issue (thousand)	<u>6,846,575</u>	<u>6,000,000</u>
Basic earnings per share (RMB yuan)	<u>0.45</u>	<u>0.31</u>

There were no potential ordinary shares outstanding during the current and prior years. Accordingly, no diluted earnings per share was presented.

14. DIVIDENDS

	Notes	Year ended 31.12.2010	Year ended 31.12.2009
Dividends recognised as distribution during the year			
2010 special dividend			
— RMB 4.36 cents/RMB 6 cents per share	(1)	403,600	
2009 Final — RMB 6 cents per share		360,000	—
2008 Final — RMB 3 cents/RMB 6 cents per share	(2)	<u>—</u>	<u>232,099</u>
Total		<u>763,600</u>	<u>232,099</u>

No final dividend was proposed in respect of the year ended 31 December 2010. (2009: final dividend of RMB6 cents per share in respect of the year ended 31 December 2009)

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

14. DIVIDENDS (Continued)

Notes:

- (1) A special dividend in total of RMB403.6 million in respect of the period from 1 January 2010 to the date immediately preceding the listing date was proposed by the directors of the Bank on 12 November 2010 and approved by the shareholders subsequently at the extraordinary general meeting on 26 November 2010. Dividend for shareholders who registered as members of the Bank on 31 December 2009 is RMB 6 cents per share while dividend for those shareholders who subscribed the new shares issued by the Bank on 30 March 2010 (Note 38 (1)) is RMB 4.36 cents per share.
- (2) The final dividend in respect of the period from 27 June to 2008 to 31 December 2008 in total of RMB232 million was approved on 23 April 2009. Dividend for shareholders who were the owners of the 39 Rural Credit Unions is RMB 6 cents per share while dividend for the promoters of the Bank is RMB 3 cents per share.

15. CASH AND BALANCES WITH CENTRAL BANK

	THE GROUP		THE BANK
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Cash	2,269,413	2,267,616	2,025,691
Mandatory reserve deposits with central bank (note 1)	33,195,245	33,175,869	19,992,329
Surplus reserve deposits with central bank (note 2)	1,790,907	1,790,702	5,378,319
Other deposits with central bank (note 3)	66,068	66,068	19,595
Total	37,321,633	37,300,255	27,415,934

Notes:

- (1) The Group places mandatory reserve deposits with the People's Bank of China (the "PBOC"). This includes RMB reserve deposits and foreign currency reserve deposits. These mandatory reserve funds are not available for the Group's daily operations.

As at 31 December 2010, mandatory reserve deposits with the PBOC were calculated at 16.5% (2009:13.5%) of eligible RMB deposits, and 5% of foreign currency deposits from customers for both years. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

- (2) The surplus reserve deposits are maintained with the PBOC mainly for the purpose of clearing.
- (3) This mainly represents the required fiscal deposits placed with the PBOC, which are non-interest bearing.
- (4) Except as specifically disclosed, all other deposits with the PBOC are interest bearing at prevailing PBOC rates.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

16. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Deposits with:			
Domestic banks	17,050,646	16,809,044	10,145,689
Overseas banks	169,591	169,591	8,721
Total	<u>17,220,237</u>	<u>16,978,635</u>	<u>10,154,410</u>

Deposits with banks and other financial institutions are interest bearing at prevailing market interest rate.

17. PLACEMENT WITH OTHER FINANCIAL INSTITUTIONS

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Placement with:			
Domestic financial institutions	2,000,000	2,000,000	—
Total	<u>2,000,000</u>	<u>2,000,000</u>	<u>—</u>

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

18. FINANCIAL ASSETS HELD FOR TRADING

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Debt securities issued by:			
Government	482,159	482,159	—
Total	482,159	482,159	—
Analysed as:			
Listed outside Hong Kong (note)	482,159	482,159	—

Note: Debt securities traded on the China Domestic Interbank Bond Market are included in “Listed outside Hong Kong”.

19. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Unlisted debt instruments issued by financial institutions	8,046,043	8,046,043	6,548,592
Total	8,046,043	8,046,043	6,548,592

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

20. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Analysed by collateral type:			
Bonds	500,000	500,000	1,250,000
Bills	36,658,018	36,658,018	11,167,196
Loans and advances to customers	—	—	957,000
Total	<u>37,158,018</u>	<u>37,158,018</u>	<u>13,374,196</u>

21. LOANS AND ADVANCES TO CUSTOMERS

Analysis of loans and advances to customers

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Gross loans and advances	121,024,559	120,841,054	99,331,722
Individually assessed	(496,983)	(496,983)	(363,202)
Collectively assessed	<u>(3,413,552)</u>	<u>(3,411,717)</u>	<u>(2,152,817)</u>
	<u>(3,910,535)</u>	<u>(3,908,700)</u>	<u>(2,516,019)</u>
Loans and advances to customers	<u>117,114,024</u>	<u>116,932,354</u>	<u>96,815,703</u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Analysis of loans and advances to customers by collective and individual assessments

	Loans and advances for which allowance is collectively assessed (a)	Identified impaired loans and advances (b)		Sub-total	Total	Identified impaired loans and advances as a % of gross total loans and advances
		For which allowance is collectively assessed	For which allowance is individually assessed			
THE GROUP						
2010						
Gross loans and advances	117,701,656	2,047,734	1,275,169	3,322,903	121,024,559	2.75
Allowance for impairment losses	<u>(1,730,072)</u>	<u>(1,683,480)</u>	<u>(496,983)</u>	<u>(2,180,463)</u>	<u>(3,910,535)</u>	
Loans and advances to customers, net	<u>115,971,584</u>	<u>364,254</u>	<u>778,186</u>	<u>1,142,440</u>	<u>117,114,024</u>	
THE BANK						
2010						
Gross loans and advances	117,518,151	2,047,734	1,275,169	3,322,903	120,841,054	2.75
Allowance for impairment losses	<u>(1,728,237)</u>	<u>(1,683,480)</u>	<u>(496,983)</u>	<u>(2,180,463)</u>	<u>(3,908,700)</u>	
Loans and advances to customers, net	<u>115,789,914</u>	<u>364,254</u>	<u>778,186</u>	<u>1,142,440</u>	<u>116,932,354</u>	
2009						
Gross loans and advances	96,342,893	1,684,440	1,304,389	2,988,829	99,331,722	3.01
Allowance for impairment losses	<u>(1,043,535)</u>	<u>(1,109,282)</u>	<u>(363,202)</u>	<u>(1,472,484)</u>	<u>(2,516,019)</u>	
Loans and advances to customers, net	<u>95,299,358</u>	<u>575,158</u>	<u>941,187</u>	<u>1,516,345</u>	<u>96,815,703</u>	

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Analysis of loans and advances to customers by collective and individual assessments (Continued)

- (a) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.
- (b) Identified impaired loans and advances include loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either individually or collectively.

Movements of allowance for impairment losses on loans and advances to customers

THE GROUP

	Individually assessed allowance	Collectively assessed allowance	Total
As at 1 January 2010	363,202	2,152,817	2,516,019
Net additions	166,649	1,343,743	1,510,392
Written off	(24,696)	(61,861)	(86,557)
Unwinding of discount on allowance	(8,172)	(21,147)	(29,319)
As at 31 December 2010	<u>496,983</u>	<u>3,413,552</u>	<u>3,910,535</u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

THE BANK

	Individually assessed allowance	Collectively assessed allowance	Total
As at 1 January 2009	269,582	607,977	877,559
Net additions	135,945	1,746,934	1,882,879
Written off	(28,990)	(186,890)	(215,880)
Unwinding of discount on allowance	(13,335)	(15,204)	(28,539)
As at 31 December 2009	363,202	2,152,817	2,516,019
Net additions	166,649	1,341,908	1,508,557
Written off	(24,696)	(61,861)	(86,557)
Unwinding of discount on allowance	(8,172)	(21,147)	(29,319)
As at 31 December 2010	496,983	3,411,717	3,908,700

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP		THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009	As at 31.12.2009
Debt securities issued by:				
Public sector and quasi-governments	—	—	276,858	
Financial institutions	100,204	100,204	101,391	
Corporations	1,281,308	1,281,308	776,404	
Subtotal	1,381,512	1,381,512	1,154,653	
Equity instruments				
— at fair value	33,660	33,660	205,438	
— at cost (note 1)	29,265	29,265	40,315	
Subtotal	62,925	62,925	245,753	
Total	1,444,437	1,444,437	1,400,406	
Analysed as:				
Listed outside Hong Kong (note 2)	1,415,172	1,415,172	1,360,091	
Unlisted	29,265	29,265	40,315	
Total	1,444,437	1,444,437	1,400,406	

Notes:

- (1) The unlisted equity securities are measured at cost because their fair value cannot be reliably measured.
- (2) All available-for-sale debt securities are traded on the China Domestic Interbank Bond Market and are included in “Listed outside Hong Kong”.

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

23. HELD-TO-MATURITY INVESTMENTS

	THE GROUP		THE BANK
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Debt securities issued by:			
Government	11,347,316	11,347,316	10,434,730
Public sector and quasi-governments	14,437,210	14,437,210	5,176,819
Financial institutions	2,350,836	2,350,836	2,929,075
Corporations	8,573,498	8,573,498	5,666,635
Total	<u>36,708,860</u>	<u>36,708,860</u>	<u>24,207,259</u>

All held-to-maturity investments are traded on the China Domestic Interbank Bond Market.

24. DEBT SECURITIES CLASSIFIED AS RECEIVABLES

	THE GROUP		THE BANK
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Certificate treasury bonds	1,109,007	1,109,007	875,595
Financial institution bonds	818,667	818,667	817,578
Debt securities issued by public sector and quasi-governments	47,234	47,234	47,006
Debt instruments issued by financial institutions (note 1)	19,244,957	19,244,957	13,533,937
Total	<u>21,219,865</u>	<u>21,219,865</u>	<u>15,274,116</u>

Note:

- (1) The debt instruments issued by financial institutions include the loans which are non-callable before maturity with fixed interest rate and not quoted in active market.

Notes to the Consolidated Financial Statements

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25. INVESTMENTS IN SUBSIDIARIES

	THE BANK	
	As at 31.12.2010	As at 31.12.2009
Investment cost	91,800	—

At 31 December 2010, details of the Bank's subsidiaries are set out below.

Name of entity	Date of incorporation	Place of incorporation	Registered and paid-in capital	Proportion of equity interest %	Proportion of voting power on the board of directors %	Principal activities
Jiangsu Zhangjiagang Huaxin Village and Township Bank Co., Ltd.	13 February 2010	Jiangsu	RMB60,000,000	51.00	51.00	Banking
Sichuan Dazhu Longyuan Village and Township Bank Co., Ltd.	12 November 2010	Sichuan	RMB60,000,000	51.00	51.00	Banking
Yunnan Dali Haidong Village and Township Bank Co., Ltd.	15 December 2010	Yunnan	RMB60,000,000	51.00	51.00	Banking

Jiangsu Zhangjiagang Huaxin Village and Township Bank Co., Ltd. was incorporated in the PRC by the Bank on 13 February 2010 together with 5 corporates and an individual promoter, which are independent third parties.

Sichuan Dazhu Longyuan Village and Township Bank Co., Ltd. was incorporated in the PRC by the Bank on 12 November 2010 together with 5 corporates, which are independent third parties.

Yunnan Dali Haidong Village and Township Bank Co., Ltd. was incorporated in the PRC by the Bank on 15 December 2010 together with 5 corporates, which are independent third parties.

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

26. PROPERTY AND EQUIPMENT

THE GROUP

	Buildings	Electronic equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
COST						
As at 1 January 2010	1,962,822	205,240	57,791	94,522	207,972	2,528,347
Additions	98,779	106,362	15,674	71,259	423,877	715,951
Transfers	243,781	30,062	954	379	(275,176)	—
Disposals	<u>(261,365)</u>	<u>(2,961)</u>	<u>(5,625)</u>	<u>(3,901)</u>	<u>(43,995)</u>	<u>(317,847)</u>
As at 31 December 2010	<u>2,044,017</u>	<u>338,703</u>	<u>68,794</u>	<u>162,259</u>	<u>312,678</u>	<u>2,926,451</u>
ACCUMULATED DEPRECIATION						
As at 1 January 2010	(300,581)	(56,800)	(23,682)	(30,080)	—	(411,143)
Provided for the year	(151,248)	(66,116)	(17,776)	(26,093)	—	(261,233)
Eliminated on disposals	<u>77,082</u>	<u>2,469</u>	<u>4,791</u>	<u>2,902</u>	<u>—</u>	<u>87,244</u>
As at 31 December 2010	<u>(374,747)</u>	<u>(120,447)</u>	<u>(36,667)</u>	<u>(53,271)</u>	<u>—</u>	<u>(585,132)</u>
CARRYING VALUES						
As at 31 December 2010	<u>1,669,270</u>	<u>218,256</u>	<u>32,127</u>	<u>108,988</u>	<u>312,678</u>	<u>2,341,319</u>
As at 1 January 2010	<u>1,662,241</u>	<u>148,440</u>	<u>34,109</u>	<u>64,442</u>	<u>207,972</u>	<u>2,117,204</u>

The carrying amounts of buildings are located on land use rights with the following lease term:

	THE GROUP
Held in the PRC	
on long-term lease (over 50 years)	22,537
on medium-term lease (10-50 years)	1,584,568
on short-term lease (less than 10 years)	<u>62,165</u>
Total	<u>1,669,270</u>

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

26. PROPERTY AND EQUIPMENT (Continued)

THE BANK

	Buildings	Electronic equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
COST						
As at 1 January 2009	1,839,809	156,586	51,959	79,244	119,518	2,247,116
Additions	134,525	52,123	8,508	23,299	134,889	353,344
Transfers	44,677	—	—	—	(44,677)	—
Disposals	(56,189)	(3,469)	(2,676)	(8,021)	(1,758)	(72,113)
As at 31 December 2009	1,962,822	205,240	57,791	94,522	207,972	2,528,347
Additions	81,594	105,253	15,201	70,218	422,486	694,752
Transfers	243,781	30,062	954	379	(275,176)	—
Disposals	(261,365)	(2,961)	(5,625)	(3,901)	(43,995)	(317,847)
As at 31 December 2010	2,026,832	337,594	68,321	161,218	311,287	2,905,252
ACCUMULATED DEPRECIATION						
As at 1 January 2009	(136,257)	(27,741)	(9,417)	(11,762)	—	(185,177)
Provided for the year	(191,269)	(29,629)	(15,612)	(22,901)	—	(259,411)
Eliminated on disposals	26,945	570	1,347	4,583	—	33,445
As at 31 December 2009	(300,581)	(56,800)	(23,682)	(30,080)	—	(411,143)
Provided for the year	(151,248)	(66,050)	(17,715)	(25,996)	—	(261,009)
Eliminated on disposals	77,082	2,469	4,791	2,902	—	87,244
As at 31 December 2010	(374,747)	(120,381)	(36,606)	(53,174)	—	(584,908)
CARRYING VALUES						
As at 31 December 2010	1,652,085	217,213	31,715	108,044	311,287	2,320,344
As at 31 December 2009	1,662,241	148,440	34,109	64,442	207,972	2,117,204

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For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

26. PROPERTY AND EQUIPMENT (Continued)

The carrying amounts of buildings are located on land use rights with the following lease term:

	THE BANK	
	As at 31.12.2010	As at 31.12.2009
Held in the PRC		
on long-term lease (over 50 years)	22,537	33,197
on medium-term lease (10-50 years)	1,567,383	1,466,529
on short-term lease (less than 10 years)	62,165	162,515
Total	<u>1,652,085</u>	<u>1,662,241</u>

27. GOODWILL

	THE GROUP
Cost and carrying value At 31 December 2010	<u>440,129</u>

	THE BANK
Cost and carrying value As at 31 December 2010 and 31 December 2009	<u>440,129</u>

Particulars regarding impairment testing on goodwill are disclosed in Note 28.

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For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

28. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS

For the purpose of impairment testing, goodwill set out in Note 27 has been allocated to three individual cash generating units (CGUs), including corporate banking, personal banking and treasury operations. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	THE GROUP		THE BANK
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Corporate banking (Unit A)	234,934	234,934	234,934
Personal banking (Unit B)	108,019	108,019	108,019
Treasury operations (Unit C)	97,176	97,176	97,176
Total	<u>440,129</u>	<u>440,129</u>	<u>440,129</u>

Intangible assets including customer relationship and core deposits (Note 29) are included in, respective CGUs for the purpose of impairment testing.

During the year ended 31 December 2010 and 31 December 2009, the directors of the Bank determine that there is no impairment of any of its CGUs containing goodwill and intangible assets.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amount of corporate banking unit, personal banking unit and treasury operations unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 9% as at 31 December 2010 (2009: 10%). The discount rate used reflects specific risks relating to the relevant CGUs. Cash flows beyond the five-year period are extrapolated using a 3% steady growth rate. This growth rate is based on the relevant domestic industry growth forecast and does not exceed the average long-term growth rate for the relevant industry.

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29. OTHER ASSETS

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Interest receivable (i)	1,562,539	1,562,143	961,977
Foreclosed assets (ii)	263,313	263,313	506,069
Intangible assets (iii)	41,108	40,952	75,748
Land use rights (iv)	464,513	464,513	484,402
Subsidy receivable (v)	214,793	214,793	237,735
Others	195,074	193,268	82,939
Total	2,741,340	2,738,982	2,348,870

(i) Interest receivable

Analysed by type

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Held-to-maturity investments	624,537	624,537	443,128
Loans and advances to customers	313,485	313,137	349,626
Available-for-sale financial assets	26,325	26,325	27,110
Debt securities classified as receivables	184,011	184,011	105,702
Financial assets designated as at fair value through profit or loss	4,683	4,683	3,125
Financial assets held under resale agreements	335,823	335,823	16,899
Balances with central bank	16,502	16,493	11,079
Deposits with banks and other financial institutions	54,729	54,690	5,308
Placement with other financial institutions	2,444	2,444	—
Total	1,562,539	1,562,143	961,977

As at 31 December 2010 and 31 December 2009, all interest receivable is due within 1 year.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

29. OTHER ASSETS (Continued)

(ii) Foreclosed assets

Analysed by type

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Land use rights and buildings	288,230	288,230	541,006
Others	1,626	1,626	2,085
Subtotal	289,856	289,856	543,091
Allowance for impairment losses	(26,543)	(26,543)	(37,022)
Total	<u>263,313</u>	<u>263,313</u>	<u>506,069</u>

(iii) Intangible assets

THE GROUP AND THE BANK

Intangible assets include computer software, core deposits and customer relationship which are amortised over 5, 3 and 3 years respectively.

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

29. OTHER ASSETS (Continued)

(iv) Land use rights

The carrying value of land use rights is analysed based on the lease term as follows:

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Held in the PRC			
on long-term lease (over 50 years)	21,471	21,471	24,662
on medium-term lease (10-50 years)	434,122	434,122	448,304
on short-term lease (less than 10 years)	8,920	8,920	11,436
Total	<u>464,513</u>	<u>464,513</u>	<u>484,402</u>

- (v) To recoup certain loan losses incurred by the 6 rural credit unions located at Three Gorges areas during Three Gorges migration, the PBOC granted in 2007 a special loan of RMB743 million to Chongqing Yufu Assets Management Company Limited (the "Chongqing Yufu") which is owned by Chongqing Municipal Government (one of the shareholder of the Bank after its incorporation on 27 June 2008). This special loan bears interest at 2.25% per annum with a maturity of 13 years. Pursuant to (i) a trust agreement entered between the 6 rural credit unions and Chongqing International Trust Co., Ltd. (the "CITCO"), an asset management company and (ii) two sets of asset management agreements entered into by the 6 rural credit unions, Chongqing Yufu and CITCO, Chongqing Yufu is required to pay an amount to the 6 rural credit unions which equals to the difference between the benchmark interest rate as quoted by the PBOC for commercial loans with terms over 5 years and the 2.25% (after adjusting for commission fee to CITCO as stipulated in the trust agreement) during the year of this special loan. In June 2007, the 6 rural credit unions recognised it as subsidy income and subsidy receivable of RMB312 million. The arrangement was transferred from the 6 rural credit unions to the Bank when the Bank acquired the Business on 27 June 2008.

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30. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Deposits from domestic banks	11,134,353	11,101,445	4,135,578
Deposits from other domestic financial institutions	577,413	577,413	—
Total	11,711,766	11,678,858	4,135,578

Deposits from banks and other financial institutions are interest bearing at prevailing market interest rate.

31. FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Principal guaranteed wealth management products (<i>note</i>)	444,806	444,806	—
Total	444,806	444,806	—

Note: The Group designates the amounts received through the principal protected guaranteed return wealth management products sold to their customers as financial liabilities at FVTPL. As at 31 December 2010, the fair value of these products issued by the Group approximates the contractual amount payable upon maturity to the holders of these products.

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For The Year Ended 31 December 2010

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32. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	THE GROUP		THE BANK
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Analysed by collateral type:			
Bonds	25,477,580	25,477,580	10,708,444
Bills	10,285,107	10,285,107	15,797,143
Total (note 48)	<u>35,762,687</u>	<u>35,762,687</u>	<u>26,505,587</u>

33. DUE TO CUSTOMERS

	THE GROUP		THE BANK
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Demand deposits			
Corporate customers	45,290,684	45,205,780	31,097,165
Individual customers	43,946,001	43,930,813	31,742,377
Time deposits			
Corporate customers	10,228,871	10,102,414	2,675,283
Individual customers	101,200,496	101,172,753	85,160,274
Pledged deposits (note)	4,846,676	4,842,138	3,033,251
Others (including outward remittance and remittance outstanding)	50,294	50,294	68,053
Total	<u>205,563,022</u>	<u>205,304,192</u>	<u>153,776,403</u>

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33. DUE TO CUSTOMERS (Continued)

Note: Analysed by products for which deposit is required:

	THE GROUP		THE BANK	
	As at		As at	
	31.12.2010	31.12.2010	31.12.2010	31.12.2009
Acceptances	3,614,373	3,614,373	2,097,889	
Letters of guarantee	35,574	35,574	850	
Letters of credit	70,026	70,026	—	
Others (i)	1,126,703	1,122,165	934,512	
Total	<u>4,846,676</u>	<u>4,842,138</u>	<u>3,033,251</u>	

- (i) Others mainly represent pledged deposits the Group received to secure loans and advances to customers.

34. ACCRUED STAFF COSTS

	THE GROUP		THE BANK	
	As at		As at	
	31.12.2010	31.12.2010	31.12.2010	31.12.2009
Salaries, bonuses and allowances	827,464	826,958	671,426	
Social insurance	1,671	1,673	2,903	
Housing funds	86	86	5,940	
Supplementary retirement benefits (i)	796,260	796,260	731,780	
Early retirement benefits (ii)	433,270	433,270	328,540	
Labor union fees and staff education expenses	107,414	107,357	73,881	
Total	<u>2,166,165</u>	<u>2,165,604</u>	<u>1,814,470</u>	

The Group's obligation in respect of the supplementary retirement benefits and early retirement benefits at the end of the reporting period was calculated using the projected unit credit method by Towers Watson, an external independent actuary.

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34. ACCRUED STAFF COSTS (Continued)

(i) Supplementary retirement benefits

Supplementary retirement benefits include supplementary pension and medical benefits.

The movements of supplementary retirement benefits recognised are as follows:

	THE GROUP
As at 1 January 2010	731,780
Amounts recognised in the consolidated income statement	
Interest cost	26,140
Present value of benefit obligation for participants entering the plan during the year	40,370
Benefits paid	(55,590)
Past service cost	53,560
	<u>796,260</u>
As at 31 December 2010	<u>796,260</u>
	THE BANK
As at 1 January 2009	758,310
Amounts recognised in the income statement	
Interest cost	23,920
Benefits paid	(50,450)
	<u>731,780</u>
As at 31 December 2009	731,780
Amounts recognised in the income statement	
Interest cost	26,140
Present value of benefit obligation for participants entering the plan during the year	40,370
Benefits paid	(55,590)
Past service cost	53,560
	<u>796,260</u>
As at 31 December 2010	<u>796,260</u>

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34. ACCRUED STAFF COSTS (Continued)

(i) Supplementary retirement benefits (Continued)

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	2010	2009
Discount rate	4.00%	3.75%
Annual average medical expenses inflation rate	7.00%	7.00%
Mortality rate	China Insurance Industry Experience Mortality Table 2000-2003	

(ii) Early retirement benefits

The movements of the early retirement benefits recognised are as follows:

	THE GROUP
As at 1 January 2010	328,540
Amounts recognised in the consolidated income statement	
Interest cost	8,870
Present value of benefit obligation for participants entering the plan during the year	132,930
Benefits paid	(80,580)
Past service cost	43,510
As at 31 December 2010	433,270

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34. ACCRUED STAFF COSTS (Continued)

(ii) Early retirement benefits (Continued)

	THE BANK
As at 1 January 2009	382,420
Amounts recognised in the income statement	
Interest cost	6,411
Benefits paid	<u>(60,291)</u>
As at 31 December 2009	<u>328,540</u>
Amounts recognised in the income statement	
Interest cost	8,870
Present value of benefit obligation for participants entering the plan during the year	132,930
Benefits paid	(80,580)
Past service cost	<u>43,510</u>
As at 31 December 2010	<u><u>433,270</u></u>

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	THE GROUP		THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Discount rate	3.50%	3.50%	3.50%	3.00%
Annual average medical expenses inflation rate	7.00%	7.00%	7.00%	7.00%
Annual subsidies inflation rate	1.00%	1.00%	1.00%	1.00%
Normal retirement age				
— Male	60	60	60	60
— Female	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>

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35. DEBT SECURITIES ISSUED

	THE GROUP	THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Subordinated bonds issued	2,300,000	2,300,000	2,300,000
Total	2,300,000	2,300,000	2,300,000

As approved by the PBOC and CBRC, the Group issued callable subordinated fixed rate bonds of RMB2,300 million on 29 December 2009.

The subordinated fixed rate bonds issued in December 2009 have a maturity of 10 years, with a fixed coupon rate of 5.5%, payable annually. The Group has an option to redeem all of the bonds at par value on 30 December 2014. If the Group does not exercise this option, the coupon rate of the bonds will increase by 3% to 8.5% per annum from 30 December 2014 for the next five years.

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36. DEFERRED TAXATION

For the purpose of presentation in the statements of financial position, certain deferred tax assets and liabilities have been offset.

The followings are the major deferred tax assets and liabilities recognised and movements thereon:

THE GROUP

	Allowances of impairment losses	Early retirement benefits	Accrued salaries, bonuses and allowances	Provision	Fair value changes of financial instruments	Interest income/ expense	Fair value changes of net assets including debt securities investment, property and equipment and other assets relating to acquisition of Business	Total
As at 1 January 2010	943,899	82,135	167,857	2,939	(21,908)	(31,569)	120,570	1,263,923
(Charge) credit to profit or loss	(41,693)	26,183	38,883	(1,481)	5,161	(12,863)	13,068	27,258
Credit to other comprehensive income	—	—	—	—	16,423	—	—	16,423
As at 31 December 2010	<u>902,206</u>	<u>108,318</u>	<u>206,740</u>	<u>1,458</u>	<u>(324)</u>	<u>(44,432)</u>	<u>133,638</u>	<u>1,307,604</u>

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36. DEFERRED TAXATION (Continued)

THE BANK

	Allowances of impairment losses	Early retirement benefits	Accrued salaries, bonuses and allowances	Provision	Fair value changes of financial instruments	Interest income/ expense	Fair value changes of net assets including debt securities investment, property and equipment and other assets relating to acquisition of Business	Total
As at 1 January 2009	1,186,376	95,605	97,067	2,936	(45,471)	(80,075)	169,943	1,426,381
(Charge) credit to profit or loss	(242,477)	(13,470)	70,790	3	—	48,506	(49,373)	(186,021)
Credit to other comprehensive income	—	—	—	—	23,563	—	—	23,563
As at 31 December 2009	943,899	82,135	167,857	2,939	(21,908)	(31,569)	120,570	1,263,923
(Charge) credit to profit or loss	(41,693)	26,183	38,883	(1,481)	5,161	(12,863)	13,068	27,258
Credit to other comprehensive income	—	—	—	—	16,423	—	—	16,423
As at 31 December 2010	902,206	108,318	206,740	1,458	(324)	(44,432)	133,638	1,307,604

Notes to the Consolidated Financial Statements

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37. OTHER LIABILITIES

	THE GROUP		THE BANK
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Interest payable (i)	2,417,937	2,417,741	2,245,727
Other payables (ii)	1,671,202	1,669,778	679,983
Business and other tax payables	153,006	152,909	135,140
Dividends payable	430,361	430,361	33,487
Provision (iii)	5,833	5,833	11,757
Deferred income (iv)	45,103	45,103	20,000
Total	4,723,442	4,721,725	3,126,094

(i) Interest payable

	THE GROUP		THE BANK
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009
Due to customers	2,143,741	2,143,666	2,026,171
Financial assets sold under repurchase agreements	238,507	238,507	214,909
Deposits from banks and other financial institutions	35,689	35,568	4,647
Total	2,417,937	2,417,741	2,245,727

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37. OTHER LIABILITIES (Continued)

(ii) Other payables

	THE GROUP		THE BANK	
	As at 31.12.2010	As at 31.12.2010	As at 31.12.2009	As at 31.12.2009
Payables arise from providing agency services to government bodies	284,693	284,693	282,224	
Payables to National Council for Social Security Fund ("NCSSF") of the PRC	828,676	828,676	—	
Dormant accounts	35,548	35,548	65,381	
Items in process of clearing and settlement	83,566	83,566	44,544	
Others	438,719	437,295	287,834	
Total	1,671,202	1,669,778	679,983	

(iii) Provision

THE GROUP AND THE BANK

	As at 1 January 2010		Additions	Reversals	Paid	As at 31 December 2010	
Allowances for litigation losses	11,757	—	(1,874)	(4,050)	5,833		
Total	11,757	—	(1,874)	(4,050)	5,833		

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(Amounts in thousands of Renminbi, unless otherwise stated)

37. OTHER LIABILITIES (Continued)

(iii) Provision (Continued)

THE BANK

	As at 1 January 2009	Additions	Reversals	As at 31 December 2009
Allowances for litigation losses	11,744	13	—	11,757
Total	<u>11,744</u>	<u>13</u>	<u>—</u>	<u>11,757</u>

(iv) Deferred income

In 2009, the Group received a government subsidy of RMB20 million from the Chongqing Municipal Government (Note 47) for the cost of construction of its head office building. The government grant was recognised as deferred income (included in other liabilities) and will be transferred to profit or loss over the useful lives of the head office building after it is completed. The construction of head office building was completed in April 2010.

In 2010, the Group received consultancy fee amounting to approximately RMB67 million from local enterprises for services covering a 2-year period.

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38. SHARE CAPITAL

	Number of shares (in thousands)	Amount
As at 1 January 2009 and 31 December 2009	6,000,000	6,000,000
Issuance of shares		
— Private placement (note 1)	1,000,000	1,000,000
— H shares offering (note 2)	2,000,000	2,000,000
Shares transfer (note 3)		
— 10 state-owned shareholders	(185,510)	(185,510)
— NCSSF	185,510	185,510
As at 31 December 2010	<u>9,000,000</u>	<u>9,000,000</u>

Notes:

- (1) On 30 March 2010, the Bank issued 1,000 million new shares with a par value of RMB1 at a subscription price of RMB1.91 per share to three state-owned enterprises under a private placement.
- (2) In accordance with the CSRC's Approval of Overseas Public Offering for Chongqing Rural Commercial Bank Co., Ltd (Zheng Jian Xu Ke [2010] No.1634), the Bank issued 2,000,000,000 H shares with par value of RMB1 per share at offer price of HKD5.25 per share.
- (3) In accordance with relevant PRC regulations regarding the transfer and disposal of state-owned shares and the Chongqing Stated-owned Assets Supervision and Administration Commission's ("SASAC") Approval on Transfer of Stated-owned shares for Chongqing Rural Commercial Bank Co., Ltd. issued on 29 July 2010, the 13 state-owned shareholders were required to transfer their shares to NCSSF, such number of the shares in aggregate equivalent to 10% of the number of H shares offering. Under this arrangement, the 10 state-owned shareholders transferred 185,509,601 H shares to NCSSF, and the remaining 3 state-owned transferred RMB76,074,595 in total to NCSSF, representing HKD5.25 per share for 14,490,399 H shares.

39. CAPITAL RESERVE

As described in Note 38, the Bank issued shares at share premium. Share premium was recorded in the capital reserve after deducting direct issue costs which mainly included underwriting fees and professional fees.

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40. INVESTMENT REVALUATION RESERVE

THE GROUP

	Gross amount	Tax effect	Net effect
As at 1 January 2010	87,631	(21,908)	65,723
Gain (loss) on fair value changes of available-for-sale financial assets	40,740	(10,185)	30,555
Reclassification adjustment to profit or loss upon disposal of available-for-sale financial assets	(106,432)	26,608	(79,824)
As at 31 December 2010	<u>21,939</u>	<u>(5,485)</u>	<u>16,454</u>

THE BANK

	Gross amount	Tax effect	Net effect
As at 1 January 2009	181,885	(45,471)	136,414
Gain (loss) on fair value changes of available-for-sale financial assets	27,148	(6,788)	20,360
Reclassification adjustment to profit or loss upon disposal of available-for-sale financial assets	(121,402)	30,351	(91,051)
As at 31 December 2009	87,631	(21,908)	65,723
Gain (loss) on fair value changes of available-for-sale financial assets	40,740	(10,185)	30,555
Reclassification adjustment to profit or loss upon disposal of available-for-sale financial assets	(106,432)	26,608	(79,824)
As at 31 December 2010	<u>21,939</u>	<u>(5,485)</u>	<u>16,454</u>

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41. SURPLUS RESERVE

Under relevant PRC Laws, the Group is required to transfer 10% of its net profit to a non-distributable statutory surplus reserve.

During the year, RMB312 million (2009: RMB194 million) was transferred to the surplus reserve of the Bank. Appropriation to the statutory surplus reserve may cease when the balance of such reserves has reached 50% of the share capital.

42. GENERAL AND REGULATORY RESERVE

Pursuant to the Measures on General Provision for Bad and Doubtful Debts for Financial Institutions (Cai Jin [2005] No. 49) and Application Guidance of Financing Measures for Financial Institutions (Cai Jin [2007] No. 23) issued by the MOF in addition to the specific and collective allowances for impairment losses, the Bank is required to establish and maintain a general reserve within equity to address potential unidentified impairment losses. The general reserve should not be less than 1% of the aggregate amount of risk assets as defined by the above measures.

Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries are required to appropriate certain amounts of their net profit as general reserve.

During the year, the Group transferred RMB1.412 million to general and regulatory reserve pursuant to regulatory requirement in the PRC.

43. RETAINED EARNINGS

The movements of retained earnings of the Bank are set out below:

	THE BANK	
	2010	2009
As at 1 January	2,069,749	607,222
Profit for the year	3,067,253	1,888,329
Appropriation to surplus reserve	(311,595)	(193,703)
Appropriation to general and regulatory reserve	(1,412,422)	—
Dividends recognised as distribution	(763,600)	(232,099)
As at 31 December	2,649,385	2,069,749

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44. CASH AND CASH EQUIVALENTS

For the purpose of consolidated statement of cash flows, cash and cash equivalents include the following balances with an original maturity of less than three months:

	THE GROUP 2010	THE BANK 2009
Cash	2,269,413	2,025,691
Balances with central bank	1,790,907	5,378,319
Deposits with banks and other financial institutions with an original maturity of less than 3 months	14,488,330	8,901,739
Financial assets held under resale agreements with an original maturity of less than 3 months	<u>12,201,804</u>	<u>12,417,196</u>
Total	<u>30,750,454</u>	<u>28,722,945</u>

45. SEGMENT ANALYSIS

Operating segments are identified on the basis of internal reports about components of the Group and the Bank that are regularly reviewed by the Board of the directors and relevant management committees (chief operating decision maker) for the purposes of allocating resources to segments and assessing their performance. The Group operates in Chongqing, PRC. All of its customers and non-current assets are located in Chongqing, PRC. The Group's chief operating decision maker reviews financial information based on business activities for the purpose of allocating resources and performance assessment.

The measurement of segment assets and liabilities, segment income and results is based on the Group's accounting policies in accordance with accounting rules and financial regulations applicable to PRC enterprises. There is no significant difference between the segment accounting policy and the policies applied in preparing the consolidated financial statements.

Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "inter-segment interest income/expense". Interest income and expense earned from third parties are referred to as "external interest income/expense".

The Group has no major customers which contribute 10 per cent or more of the Group's income.

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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45. SEGMENT ANALYSIS (Continued)

Operating segment

The Group provides a diversified range of banking and related financial services. The products and services offered to customers are organised into three operating segments:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit takings and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The products and services include personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market or repurchase transactions, and debt instruments investment for its own accounts or on behalf of customers.

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45. SEGMENT ANALYSIS (Continued)

Operating segment (Continued)

THE GROUP

	Corporate banking	Personal banking	Treasury operations	Segment total	Unallocated	Total
Year ended 31 December 2010						
External interest income	4,245,237	2,614,216	4,613,925	11,473,378	—	11,473,378
External interest expense	(341,687)	(2,265,980)	(1,363,943)	(3,971,610)	—	(3,971,610)
Inter-segment interest (expense) income	(689,347)	2,241,922	(1,552,575)	—	—	—
Net interest income	3,214,203	2,590,158	1,697,407	7,501,768	—	7,501,768
Fee and commission income	75,808	102,934	130,167	308,909	—	308,909
Fee and commission expense	(5,670)	(7,711)	(9,752)	(23,133)	—	(23,133)
Net fee and commission income	70,138	95,223	120,415	285,776	—	285,776
Net trading loss	—	—	(46,181)	(46,181)	—	(46,181)
Other operating income, net	—	—	(58,695)	(58,695)	61,921	3,226
Operating income	3,284,341	2,685,381	1,712,946	7,682,668	61,921	7,744,589
Operating expense	(1,957,696)	(1,502,992)	(400,676)	(3,861,364)	(48,700)	(3,910,064)
Impairment reversals (losses) on assets	318,117	(272,909)	—	45,208	—	45,208
Net gain on disposal of available-for-sale financial assets	—	—	105,387	105,387	1,045	106,432
Profit before tax	1,644,762	909,480	1,417,657	3,971,899	14,266	3,986,165
Income tax expense	—	—	—	—	—	(924,945)
Profit for the year	—	—	—	—	—	<u>3,061,220</u>
As at 31 December 2010						
Segment assets	74,940,916	41,263,458	164,728,469	280,932,843	4,612,825	285,545,668
Segment liabilities	62,520,387	149,058,626	50,615,986	262,194,999	920,280	263,115,279
Supplementary information						
Credit commitments	5,229,578	—	—	5,229,578	—	5,229,578
Depreciation and amortisation included in operating expenses	174,095	136,622	20,407	331,124	—	331,124
Capital expenditure	<u>388,746</u>	<u>305,071</u>	<u>45,566</u>	<u>739,383</u>	<u>—</u>	<u>739,383</u>

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45. SEGMENT ANALYSIS (Continued)

Operating segment (Continued)

THE BANK

	Corporate banking	Personal banking	Treasury operations	Segment total	Unallocated	Total
Year ended 31 December 2009						
External interest income	3,331,427	2,219,908	3,151,594	8,702,929	—	8,702,929
External interest expense	(201,002)	(2,327,511)	(699,961)	(3,228,474)	—	(3,228,474)
Inter-segment interest (expense) income	(840,818)	1,999,159	(1,158,341)	—	—	—
Net interest income	2,289,607	1,891,556	1,293,292	5,474,455	—	5,474,455
Fee and commission income	35,720	55,068	58,045	148,833	—	148,833
Fee and commission expense	(2,901)	(4,473)	(4,716)	(12,090)	—	(12,090)
Net fee and commission income	32,819	50,595	53,329	136,743	—	136,743
Net trading gain	—	—	8,321	8,321	—	8,321
Other operating income, net	—	—	4,918	4,918	52,348	57,266
Operating income	2,322,426	1,942,151	1,359,860	5,624,437	52,348	5,676,785
Operating expense	(1,630,772)	(1,275,252)	(235,948)	(3,141,972)	(48,700)	(3,190,672)
Impairment reversals (losses) on assets	122,421	(245,392)	—	(122,971)	—	(122,971)
Net gain on disposal of available-for-sale financial assets	—	—	121,402	121,402	—	121,402
Profit before tax	814,075	421,507	1,245,314	2,480,896	3,648	2,484,544
Income tax expense	—	—	—	—	—	(596,215)
Profit for the year	—	—	—	—	—	<u>1,888,329</u>
As at 31 December 2009						
Segment assets	57,441,509	25,932,661	113,575,964	196,950,134	4,410,608	201,360,742
Segment liabilities	38,319,061	120,017,837	33,286,817	191,623,715	259,677	191,883,392
Supplementary information						
Credit commitments	2,983,976	—	—	2,983,976	—	2,983,976
Depreciation and amortisation included in operating expenses	178,926	141,778	10,286	330,990	—	330,990
Capital expenditure	256,190	203,031	14,723	473,944	—	473,944

Unallocated assets mainly include property and equipment of the Group's head office. Unallocated liabilities mainly include tax liabilities and dividends payable.

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46. RELATED PARTY TRANSACTIONS

Related parties of the Group and the Bank

The directors of the Bank consider that the following shareholders are related parties of the Group:

Name of shareholders	Percentage of shares hold	
	2010 %	2009 %
Chongqing Yufu Assets Management Company Limited	7.09	10.00
Chongqing City Investment Co., Ltd.	6.78	—
Loncin Holding Co., Ltd.	6.33	9.50
Beijing Jiuding Real Estate Co., Ltd.	—	5.00

There are several entities significantly influenced by member of key management personnel of the Group which are considered as related parties of the Group (“other related parties”).

Related party transactions

During the year, the Group and the Bank entered into the following material transactions with related parties:

	Interest income			Interest expense			Other operating income		
	THE GROUP	THE BANK	THE BANK	THE GROUP	THE BANK	THE BANK	THE GROUP	THE BANK	THE BANK
	2010	2010	2009	2010	2010	2009	2010	2010	2009
Shareholders of the Bank	88,715	88,715	101,183	12,944	12,944	444	18,458	18,458	—
Other related parties	99,621	99,621	114,782	3,843	3,843	2,022	—	—	—

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46. RELATED PARTY TRANSACTIONS (Continued)

Related party transactions (Continued)

At the end of each reporting period, the Group and the Bank had the following material outstanding balances with related parties:

	Loans and advances to related parties			Customer deposits from related parties		
	THE GROUP	THE BANK		THE GROUP	THE BANK	
	2010	2010	2009	2010	2010	2009
Shareholders of the Bank	1,932,908	1,932,908	1,250,000	370,815	370,815	3,461
Other related parties	<u>2,059,000</u>	<u>2,059,000</u>	<u>1,190,000</u>	<u>927,003</u>	<u>927,003</u>	<u>229,275</u>

	Interest receivable from related parties			Interest payable to related parties		
	THE GROUP	THE BANK		THE GROUP	THE BANK	
	2010	2010	2009	2010	2010	2009
Shareholders of the Bank	3,274	3,274	132,134	72	72	1
Other related parties	<u>3,365</u>	<u>3,365</u>	<u>2,369</u>	<u>2,590</u>	<u>2,590</u>	<u>1,433</u>

	Subsidy receivable from related parties			Debt securities issued to related parties		
	THE GROUP	THE BANK		THE GROUP	THE BANK	
	2010	2010	2009	2010	2010	2009
Shareholder of the Bank	<u>214,793</u>	<u>214,793</u>	<u>237,735</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

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46. RELATED PARTY TRANSACTIONS (Continued)

Related party transactions (Continued)

	Acceptance issued for related parties		
	THE GROUP	THE BANK	
	2010	2010	2009
Other related parties	25,500	25,500	—

As at 31 December 2010, the debt instruments issued by financial institutions of RMB1,000 million (2009: RMB4,665 million) included in debt securities classified as receivables were used to finance the investments of those financial institutions in which a shareholder of the Bank has an option to acquire such investments from those financial institutions at a pre-determined price in future.

Key management personnel

Key management personnel are those persons in the Bank or the Group who have the authority and responsibility to plan, direct and control the activities of the Bank or the Group.

The remuneration of directors and other members of key management during the year were as follows:

	THE GROUP	THE BANK	
	2010	2010	2009
Basic salaries and allowances	1,054	1,054	1,311
Bonuses	7,488	7,488	5,759
Contribution to pension schemes	513	513	495
Fees	586	586	575
Total	9,641	9,641	8,140

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47. GOVERNMENT GRANT

	THE GROUP		THE BANK	
	2010	2010	2010	2009
Government grant received related to:				
Depreciable assets (note 1)	—	—		20,000
Other subsidy income (note 2)	331	111		3,320
Total	331	111		23,320

Notes:

- (1) The Group received a government subsidy of RMB20 million from the Chongqing Municipal Government (Note 37) for the cost of construction of its head office building. The government grant was recognised as deferred income (included in other liabilities) and will be transferred to profit or loss over the useful life of the head office building after it is completed. The construction of head office building was completed in April 2010.
- (2) In 2010, Jiangsu Zhangjiagang Huaxin Village and Township Bank Co., Ltd. and Sichuan Dazhu Longyuan Village and Township Bank Co., Ltd., the subsidiaries of the Bank, received a government subsidy of RMB220,000 from the local Ministry of Finance, which was granted as a subsidy for the establishment of these banks during the year. The amounts, together with other subsidy of RMB110,000 received by the Bank, was recognised as other operating income.

In 2009, the Group received a government subsidy of RMB approximately 3 million from Ministry of Finance, Chongqing Municipal Office and Chongqing Foreign Trade and Economic Relations Commission which was determined based on new working capital loans granted to small and medium-sized enterprises in 2009. The amounts were recognised as other operating income.

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48. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. As at 31 December 2010, provisions of RMB5.8 million (2009:RMB12 million) were made based on court judgments or the advice of counsel. The directors of the Bank believe, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or the external legal professionals is disclosed in Note 37(iii) "Provision".

Capital commitments

	THE GROUP		THE BANK	
	2010	2010	2010	2009
Contracted but not provided for	170,837	170,837		120,235
Authorised but not contracted for	265,816	265,816		475,561
Total	436,653	436,653		595,796

Credit commitments

	THE GROUP		THE BANK	
	2010	2010	2010	2009
Letters of credit issued	337,458	337,458		—
Letters of guarantee	47,992	47,992		7,365
Acceptances	4,844,128	4,844,128		2,976,611
Total	5,229,578	5,229,578		2,983,976

Credit commitments represent general facility limits granted to customers. These credit facilities may be drawn in the form of loans and advances or through the issuance of letters of credit, acceptances or letters of guarantee.

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48. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Operating lease commitment

At the end of each reporting period, the Group has the following non-cancellable operating lease commitments as lessee with fixed lease term and lease payment:

	THE GROUP		THE BANK	
	2010	2010	2010	2009
Within 1 year	21,217	20,467		10,359
1 to 2 years	17,613	16,863		8,669
2 to 3 years	15,657	14,777		7,277
Above 3 years	79,367	77,334		12,583
Total	<u>133,854</u>	<u>129,441</u>		<u>38,888</u>

The leases are negotiated for a lease term of 1 to 14 years.

Credit risk weighted amounts for credit commitments

	THE GROUP		THE BANK	
	2010	2010	2010	2009
Credit commitments	<u>1,404,966</u>	<u>1,404,966</u>		<u>555,882</u>

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics. The risk weightings used range from 0% to 100%, for contingent liabilities and commitments.

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48. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Collateral

Assets pledged

The carrying amount of assets pledged as collateral under repurchase agreement by the Group is as follows:

	THE GROUP	THE BANK	
	2010	2010	2009
Bonds	25,508,816	25,508,816	10,433,303
Bills	10,285,107	10,285,107	15,797,143
Total	35,793,923	35,793,923	26,230,446

As at 31 December 2010, the net book value of financial assets sold under repurchase agreements by the Group and the Bank was RMB35,763 million (Note 32). As at 31 December 2009, securities held by the Bank under repurchase agreements amounted to RMB26,506 million (Note 32). All repurchase agreements are due within twelve months from inception.

Collateral accepted

Bills and other documents received as collateral can be resold or re-pledged in connection with bills and other documents purchased under resale agreements. The fair value of collateral accepted by the Group and the Bank is RMB36,658 million as at 31 December 2010 (2009: RMB11,168 million). No collateral was sold or re-pledged by the Group and the Bank as at year ended of 2010 and 2009.

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49. FINANCIAL RISK MANAGEMENT

Overview

The primary risk management of the Group is to maintain risk within acceptable parameters and satisfy the regulatory requirements.

The Group has designed risk management policies and has set up risk controls to identify, analyse, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practice.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Risk management framework

The Group has a Risk Management Committee under the Board of Directors. Risk Management Committee is responsible for setting the overall risk management and internal control strategies of the Group, monitoring credit risk, market risk, liquidity risk and operation risk, periodically assessing the overall risk position, risk acceptance and management capabilities, and making recommendations and suggestions on risk management and internal control of the Group and the Bank.

Following the risk management strategies set by the Risk Management Committee, the Risk Management Department of the Group formulates and implements relevant risk management policies and procedures to monitor the risk arising from financial instruments of the Group.

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The major credit risk of the Group comes from loans and advances to customers and other on-balance sheet and off-balance sheet credit risk exposures.

The Group exercises standardised credit management procedures, including credit investigation and proposals, credit limit review, loan disbursement, post lending monitoring, and non-performing loans management. The Group enhances its credit risk management by strict compliance with its credit management procedures; strengthening customer investigation, lending approval and post lending monitoring; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrade of Credit Management System.

Apart from the credit risk exposures on credit-related assets and deposits with banks and other financial institutions, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality including by reference to external credit rating information where available. In addition, the Group also provide financial guarantee service to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the contract. Risks arising from financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management procedures and policies.

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Impairment assessment

Key factors on impairment assessment

The Group generally measures and manages the quality of credit risk-bearing assets based on the Guideline for Loan Credit Risk Classification issued by the CBRC, which requires the Group to classify loans into the following five category loan classification: normal, special mention, substandard, doubtful and loss. Loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. The main factors considered in loan impairment assessment include probability of loan repayment and recoverability of principal and interest, which relates to borrowers' repayment ability, credit record, repayment intention, projected profitability, guarantees or collateral and legal responsibility of repayment. The allowances for impairment losses are assessed collectively or individually as appropriate.

The Group assesses the impairment for loans and advances to customers at the end of reporting period in accordance with the accounting policies set out in Note 3. In addition, analysis based on the contractual amounts of the loans and advances to customers at the end of reporting period are provided internally to management for the purpose of assessing financial risks. Hence, certain quantitative disclosure in financial risk management has been prepared based on the original contractual amounts of those instruments particularly, loans and advances to customers.

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Impairment assessment (Continued)

Key factors on impairment assessment (Continued)

The five category loan classification in which the Group classifies its loans and advances to customers is set out below:

- Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
- Special mention: Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
- Substandard: Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operational revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
- Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
- Loss: Only a small portion or none of principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

The accounting policies regarding the Group's estimation of impairment losses on financial assets are set out in Note 3 "Impairment of financial assets".

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of the reporting period without taking into account any collateral held or other credit enhancements. The maximum exposure to credit risk at the end of the reporting period is represented by the carrying amount of each financial asset recognised in the consolidated statements of financial position and credit commitments disclosed in Note 48 "Contingent liabilities and commitments".

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

A summary of the maximum exposure to credit risk is as follows:

	THE GROUP	THE BANK	
	2010	2010	2009
Balances with central bank	35,052,220	35,032,639	25,390,243
Deposits with banks and other financial institutions	17,220,237	16,978,635	10,154,410
Placement with other financial institutions	2,000,000	2,000,000	—
Financial assets held for trading	482,159	482,159	—
Financial assets designated as at fair value through profit or loss	8,046,043	8,046,043	6,548,592
Financial assets held under resale agreements	37,158,018	37,158,018	13,374,196
Loans and advances to customers	117,114,024	116,932,354	96,815,703
Available-for-sale financial assets	1,381,512	1,381,512	1,154,653
Held-to-maturity investments	36,708,860	36,708,860	24,207,259
Debt securities classified as receivables	21,219,865	21,219,865	15,274,116
Other financial assets	1,955,013	1,954,562	1,276,163
Subtotal	278,337,951	277,894,647	194,195,335
Off-balance sheet items			
Letters of credit issued	337,458	337,458	—
Letters of guarantee	47,992	47,992	7,365
Acceptances	4,844,128	4,844,128	2,976,611
Subtotal	5,229,578	5,229,578	2,983,976
Total	283,567,529	283,124,225	197,179,311

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

The Group implements specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level, the most typical of these is by obtaining collateral and guarantees. The amount and type of acceptable collateral are determined by credit risk evaluations of borrowers. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

- Mortgage loans to personal customers are generally collateralised by mortgages over residential properties;
- Other personal lending and corporate loans and advances are mainly collateralised by charges over land and properties and other assets of the borrowers; and
- Reverse repurchase transactions are mainly collateralised by bonds, bills, or loans and advances to customers.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances to customers

The composition of the contractual amount of loans and advances to customers by industry or by nature is analysed as follows:

	The Group		The Bank			
	2010		2010		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
Corporate loans and advances						
Production and supply of electricity, gas and water	4,819,700	6.06	4,819,700	6.06	4,962,980	6.72
Real estate	12,188,464	15.32	12,188,464	15.33	14,159,567	19.21
Construction	6,100,061	7.67	6,100,061	7.67	3,034,916	4.12
Financial concerns	1,663,512	2.09	1,663,512	2.09	14,595,063	19.80
Retail and wholesale	4,617,934	5.81	4,617,934	5.81	3,052,259	4.14
Water, environment and public utilities management	12,925,740	16.25	12,925,740	16.25	4,161,840	5.65
Manufacturing	22,973,987	28.88	22,973,987	28.89	18,145,989	24.62
Leasing and commercial services	1,316,517	1.66	1,316,517	1.66	4,021,521	5.46
Transportation, logistics and postal services	3,076,330	3.87	3,076,330	3.87	2,132,841	2.89
Education	2,676,889	3.37	2,676,889	3.37	2,247,354	3.05
Others	7,185,523	9.02	7,166,523	9.00	3,203,273	4.34
Subtotal	<u>79,544,657</u>	<u>100.00</u>	<u>79,525,657</u>	<u>100.00</u>	<u>73,717,603</u>	<u>100.00</u>

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances to customers (Continued)

The composition of the contractual amount of loans and advances to customers by industry or by nature is analysed as follows: (Continued)

	The Group		The Bank			
	2010		2010		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
Personal loans and advances						
Mortgages	24,002,994	56.34	24,002,994	56.56	12,333,644	43.89
Loans to private business and employment assistance loans	11,289,459	26.50	11,124,989	26.22	8,717,761	31.02
Farmer loans	3,163,335	7.43	3,163,300	7.45	4,321,722	15.38
Others	4,144,704	9.73	4,144,704	9.77	2,730,359	9.71
Subtotal	42,600,492	100.00	42,435,987	100.00	28,103,486	100.00
Contractual amount of loans and advances to customers	<u>122,145,149</u>		<u>121,961,644</u>		<u>101,821,089</u>	

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances to customers (Continued)

The composition of the contractual amount of loans and advances to customers by contractual maturity and collateral type is analysed as follows:

THE GROUP

	Less than 1 year	1 to 5 years	More than 5 years	Total
2010				
Unsecured loans	1,405,684	7,595,418	5,422,578	14,423,680
Guaranteed loans	5,976,009	13,539,602	4,655,558	24,171,169
Collateralised and other secured loans				
— loans secured by property and other immovable assets	7,611,252	36,844,997	28,676,247	73,132,496
— other pledged loans	3,507,029	4,044,948	2,865,827	10,417,804
Total	<u>18,499,974</u>	<u>62,024,965</u>	<u>41,620,210</u>	<u>122,145,149</u>

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances to customers (Continued)

THE BANK

	Less than 1 year	1 to 5 years	More than 5 years	Total
2010				
Unsecured loans	1,397,649	7,595,418	5,422,578	14,415,645
Guaranteed loans	5,848,109	13,539,602	4,655,558	24,043,269
Collateralised and other secured loans				
— loans secured by property and other immovable assets	7,570,982	36,839,497	28,676,247	73,086,726
— other pledged loans	3,505,229	4,044,948	2,865,827	10,416,004
Total	18,321,969	62,019,465	41,620,210	121,961,644
2009				
Unsecured loans	5,697,623	6,050,014	1,724,230	13,471,867
Guaranteed loans	4,960,379	7,152,833	2,530,432	14,643,644
Collateralised and other secured loans				
— loans secured by property and other immovable assets	7,443,890	29,174,034	13,658,074	50,275,998
— other pledged loans	16,706,593	5,077,362	1,645,625	23,429,580
Total	34,808,485	47,454,243	19,558,361	101,821,089

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances to customers (Continued)

Past due loans at contractual amount

THE GROUP

	Up to 90 days (including 90 days)	90–360 days	361 days to 3 years	Over 3 years	Total
2010					
Unsecured loans	654,029	293,703	536,408	159,886	1,644,026
Guaranteed loans	134,588	67,720	202,535	64,280	469,123
Collateralised and other secured loans					
— loans secured by property and other immovable assets	665,260	577,634	541,942	485,397	2,270,233
— other pledged loans	107,686	13,773	45,088	23,708	190,255
Total	1,561,563	952,830	1,325,973	733,271	4,573,637

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances to customers (Continued)

THE BANK

	Up to 90 days (including 90 days)	90–360 days	361 days to 3 years	Over 3 years	Total
2010					
Unsecured loans	654,029	293,703	536,408	159,886	1,644,026
Guaranteed loans	134,588	67,720	202,535	64,280	469,123
Collateralised and other secured loans					
— loans secured by property and other immovable assets	665,260	577,634	541,942	485,397	2,270,233
— other pledged loans	107,686	13,773	45,088	23,708	190,255
Total	1,561,563	952,830	1,325,973	733,271	4,573,637
2009					
Unsecured loans	903,230	453,471	569,639	91,742	2,018,082
Guaranteed loans	167,934	263,822	264,276	28,716	724,748
Collateralised and other secured loans					
— loans secured by property and other immovable assets	738,892	1,049,143	637,734	226,462	2,652,231
— other pledged loans	24,132	61,834	34,316	31,487	151,769
Total	1,834,188	1,828,270	1,505,965	378,407	5,546,830

Note: If either a loan's principal or interest past due by 1 day in any period, the whole loan is classified as past due loan.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances to customers (Continued)

Credit quality of loans and advances to customers at contractual amount

	THE GROUP		THE BANK	
	2010	2010	2010	2009
Neither past due nor impaired (i)	117,315,814	117,132,309	95,701,696	
Past due but not impaired (ii)	1,918,059	1,918,059	2,173,414	
Impaired (iii)	2,911,276	2,911,276	3,945,979	
Total contractual amount of loans and advances to customers	122,145,149	121,961,644	101,821,089	
Less: Fair value adjustment and allowances for impairment losses of loans and advances to customers	(5,031,125)	(5,029,290)	(5,005,386)	
Loans and advances to customers	117,114,024	116,932,354	96,815,703	

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances to customers (Continued)

Credit quality of loans and advances to customers at contractual amount (Continued)

(i) Loans and advances neither past due nor impaired

THE GROUP

	Normal	Special mention	Total
2010			
Corporate loans and advances	65,810,287	12,075,396	77,885,683
Personal loans and advances	38,712,539	717,592	39,430,131
Total	<u>104,522,826</u>	<u>12,792,988</u>	<u>117,315,814</u>

THE BANK

	Normal	Special mention	Total
2010			
Corporate loans and advances	65,791,288	12,075,396	77,866,684
Personal loans and advances	38,548,033	717,592	39,265,625
Total	<u>104,339,321</u>	<u>12,792,988</u>	<u>117,132,309</u>
2009			
Corporate loans and advances	56,255,954	15,367,726	71,623,680
Personal loans and advances	23,193,220	884,796	24,078,016
Total	<u>79,449,174</u>	<u>16,252,522</u>	<u>95,701,696</u>

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances to customers (Continued)

Credit quality of loans and advances to customers at contractual amount (Continued)

(ii) Loans and advances past due but not impaired

THE GROUP AND THE BANK

	Up to 30 days (including 30 days)	30-60 days (including 60 days)	60-90 days (including 90 days)	More than 90 days	Total	Fair value of collateral
2010						
Corporate loans and advances	115,000	26,229	—	31,567	172,796	287,115
Personal loans and advances	1,204,690	112,665	52,025	375,883	1,745,263	1,082,570
Total	<u>1,319,690</u>	<u>138,894</u>	<u>52,025</u>	<u>407,450</u>	<u>1,918,059</u>	<u>1,369,685</u>

THE BANK

	Up to 30 days (including 30 days)	30-60 days (including 60 days)	60-90 days (including 90 days)	More than 90 days	Total	Fair value of collateral
2009						
Corporate loans and advances	47,823	19,460	8,500	62,812	138,595	150,613
Personal loans and advances	1,426,282	87,922	74,446	446,169	2,034,819	1,080,540
Total	<u>1,474,105</u>	<u>107,382</u>	<u>82,946</u>	<u>508,981</u>	<u>2,173,414</u>	<u>1,231,153</u>

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances to customers (Continued)

Credit quality of loans and advances to customers at contractual amount (Continued)

(iii) Impaired loans and advances

THE GROUP AND THE BANK

	Gross amount	Allowance for impairment losses	Carrying value
2010			
Individually assessed	1,402,483	(624,297)	778,186
Collectively assessed	<u>1,508,793</u>	<u>(1,144,539)</u>	<u>364,254</u>
Total	<u><u>2,911,276</u></u>	<u><u>(1,768,836)</u></u>	<u><u>1,142,440</u></u>

THE BANK

	Gross amount	Allowance for impairment losses	Carrying value
2009			
Individually assessed	1,888,129	(946,941)	941,188
Collectively assessed	<u>2,057,850</u>	<u>(1,482,692)</u>	<u>575,158</u>
Total	<u><u>3,945,979</u></u>	<u><u>(2,429,633)</u></u>	<u><u>1,516,346</u></u>

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances to customers (Continued)

Credit quality of loans and advances to customers at contractual amount (Continued)

(iii) Impaired loans and advances (Continued)

Including:

	THE GROUP		THE BANK	
	2010	2010	2010	2009
Individually assessed and impaired	1,402,483	1,402,483		1,888,129
Individually assessed and impaired %	1.15	1.15		1.85
Fair value of collateral	1,644,496	1,644,496		2,904,563

Rescheduled loans and advances

Rescheduled loans and advances arise from rescheduling and deferral of repayment terms. Rescheduled loans and advances are under continuous monitoring. Contractual amount of rescheduled loans and advances as at 31 December 2010 were RMB456 million (2009: RMB849 million).

Assets foreclosed under credit enhancement arrangement

Details of such assets are disclosed in Note 29.

Notes to the Consolidated Financial Statements

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Debt securities

Credit quality of debt securities

	THE GROUP		THE BANK	
	2010	2010	2010	2009
Neither past due nor impaired (i)	67,838,439	67,838,439	47,184,620	

(i) Debt securities neither past due nor impaired

THE GROUP AND THE BANK

	Financial assets designated as		Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total
	Financial assets held for trading	at fair value through profit or loss				
2010						
Government bonds and PBOC Bills	482,159	—	—	11,347,316	—	11,829,475
Public sector, quasi-government bonds	—	—	—	14,437,210	47,234	14,484,444
Financial institution bonds	—	—	100,204	2,350,836	818,667	3,269,707
Corporate bonds	—	—	1,281,308	8,573,498	—	9,854,806
Certificate treasury bonds	—	—	—	—	1,109,007	1,109,007
Debt instruments issued by financial institutions	—	8,046,043	—	—	19,244,957	27,291,000
Total	482,159	8,046,043	1,381,512	36,708,860	21,219,865	67,838,439

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Debt securities (Continued)

Credit quality of debt securities (Continued)

(i) Debt securities neither past due nor impaired (Continued)

THE BANK

	Financial assets designated as at fair value through profit or loss	Available- for-sale financial assets	Held-to- maturity investments	Debt securities classified as receivables	Total
2009					
Government bonds and PBOC Bills	—	—	10,434,730	—	10,434,730
Public sector, quasi-government bonds	—	276,858	5,176,819	47,006	5,500,683
Financial institution bonds	—	101,391	2,929,075	817,578	3,848,044
Corporate bonds	—	776,404	5,666,635	—	6,443,039
Certificate treasury bonds	—	—	—	875,595	875,595
Debt instruments issued by financial institutions	6,548,592	—	—	13,533,937	20,082,529
Total	6,548,592	1,154,653	24,207,259	15,274,116	47,184,620

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Debt securities (Continued)

Debt securities analysed by credit rating and credit risk characteristic

The Group relied on credit rating provided by the external credit agencies in the PRC to classify the debt securities.

THE GROUP AND THE BANK

	AAA	AA	Unrated	Total
2010				
Financial assets held for trading				
Government bonds and PBOC bills	—	—	482,159	482,159
Subtotal	—	—	482,159	482,159
Financial assets designated as at fair value through profit or loss				
Debt instruments issued by financial institutions	—	—	8,046,043	8,046,043
Subtotal	—	—	8,046,043	8,046,043
Available-for-sale financial assets				
Financial institution bonds	100,204	—	—	100,204
Corporate bonds	157,343	1,123,965	—	1,281,308
Subtotal	257,547	1,123,965	—	1,381,512

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Debt securities (Continued)

Debt securities analysed by credit rating and credit risk characteristic (Continued)

THE GROUP AND THE BANK (Continued)

	AAA	AA	Unrated	Total
Held-to-maturity investments				
Government bonds and PBOC bills	—	—	11,347,316	11,347,316
Public sector, quasi-government bonds	1,993,792	—	12,443,418	14,437,210
Financial institution bonds	1,750,944	499,892	100,000	2,350,836
Corporate bonds	7,298,053	1,275,445	—	8,573,498
Subtotal	11,042,789	1,775,337	23,890,734	36,708,860
Debt securities classifies as receivables				
Public sector, quasi-government bonds	—	—	47,234	47,234
Financial institution bonds	236,873	581,794	—	818,667
Certificate treasury bonds	—	—	1,109,007	1,109,007
Debt instruments issued by financial institutions	—	—	19,244,957	19,244,957
Subtotal	236,873	581,794	20,401,198	21,219,865
Total	11,537,209	3,481,096	52,820,134	67,838,439

Notes to the Consolidated Financial Statements

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Debt securities (Continued)

Debt securities analysed by credit rating and credit risk characteristic (Continued)

THE BANK

	AAA	AA	Unrated	Total
2009				
Financial assets designated as at fair value through profit or loss				
Debt instruments issued by financial institutions	—	—	6,548,592	6,548,592
Subtotal	—	—	6,548,592	6,548,592
Available-for-sale financial assets				
Public sector, quasi-government bonds	—	—	276,858	276,858
Financial institution bonds	101,391	—	—	101,391
Corporate bonds	272,045	504,359	—	776,404
Subtotal	373,436	504,359	276,858	1,154,653
Held-to-maturity investments				
Government bonds and PBOC bills	—	—	10,434,730	10,434,730
Public sector, quasi-government bonds	—	—	5,176,819	5,176,819
Financial institution bonds	2,429,117	499,958	—	2,929,075
Corporate bonds	5,053,233	613,402	—	5,666,635
Subtotal	7,482,350	1,113,360	15,611,549	24,207,259

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49. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Debt securities (Continued)

Debt securities analysed by credit rating and credit risk characteristic (Continued)

THE BANK (Continued)

	AAA	AA	Unrated	Total
Debt securities classifies as receivables				
Certificate treasury bonds	—	—	875,595	875,595
Public sector, quasi-government bonds	—	—	47,006	47,006
Financial institution bonds	236,242	581,336	—	817,578
Debt instruments issued by financial institutions	—	—	13,533,937	13,533,937
Subtotal	236,242	581,336	14,456,538	15,274,116
Total	8,092,028	2,199,055	36,893,537	47,184,620

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flow or maturity mismatches of assets and liabilities.

Risk Management Department manages its liquidity risk via:

- Setting target ratio on assets and liabilities structure in accordance with the regulatory requirements and business plan;
- Maintaining stability of deposit base; and
- Making advanced projection on future cash flows and evaluating the appropriate current assets position.

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49. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Analysis of the remaining maturity of the financial assets and liabilities

The table below summarises the maturity analysis of financial assets and liabilities by remaining contractual maturities at the end of the reporting period.

THE GROUP

	Past due/undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2010								
Non-derivative financial assets								
Cash and balances with central bank	33,195,245	4,126,388	—	—	—	—	—	37,321,633
Deposits with banks and other financial institutions	—	3,320,742	6,466,638	4,686,857	2,046,000	700,000	—	17,220,237
Placement with other financial institutions	—	—	—	—	—	2,000,000	—	2,000,000
Financial assets held for trading	—	—	—	—	—	—	482,159	482,159
Financial assets designated as								
at fair value through profit or loss	—	—	3,709,863	1,566,087	2,770,093	—	—	8,046,043
Financial assets held under resale agreements	—	—	17,139,933	9,230,502	10,787,583	—	—	37,158,018
Loans and advances to customers	1,243,068	—	3,533,443	4,497,875	22,381,636	47,310,425	38,147,577	117,114,024
Available-for-sale financial assets	62,925	—	—	—	—	240,790	1,140,722	1,444,437
Held-to-maturity investments	—	—	1,099,930	1,499,677	1,578,421	9,557,821	22,973,011	36,708,860
Debt securities classified as receivables	—	—	1,945,441	755,939	5,010,553	12,642,030	865,902	21,219,865
Other financial assets	—	1,740,220	—	—	35,141	129,105	50,547	1,955,013
Total financial assets	34,501,238	9,187,350	33,895,248	22,236,937	44,609,427	72,580,171	63,659,918	280,670,289

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Analysis of the remaining maturity of the financial assets and liabilities (Continued)

THE GROUP (Continued)

	Past		Less than				Over 5 years	Total
	due/undated	On demand	1 month	1-3 months	3-12 months	1-5 years		
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	—	3,689,790	4,113,976	2,708,000	1,200,000	—	—	11,711,766
Financial liabilities designated as at fair value through profit or loss	—	—	—	—	444,806	—	—	444,806
Financial assets sold under repurchase agreements	—	—	18,104,394	5,734,460	11,923,833	—	—	35,762,687
Due to customers	—	101,906,481	8,340,783	21,827,979	59,280,490	14,027,539	179,750	205,563,022
Debt securities issued	—	—	—	—	—	—	2,300,000	2,300,000
Other financial liabilities	—	4,051,255	—	—	—	—	37,884	4,089,139
Total financial liabilities	—	109,647,526	30,559,153	30,270,439	72,849,129	14,027,539	2,517,634	259,871,420
Net position	34,501,238	(100,460,176)	3,336,095	(8,033,502)	(28,239,702)	58,552,632	61,142,284	20,798,869

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49. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Analysis of the remaining maturity of the financial assets and liabilities (Continued)

THE BANK

	Past due/undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2010								
Non-derivative financial assets								
Cash and balances with central bank	33,175,869	4,124,386	—	—	—	—	—	37,300,255
Deposits with banks and other financial institutions	—	3,139,140	6,406,638	4,686,857	2,046,000	700,000	—	16,978,635
Placement with other financial institutions	—	—	—	—	—	2,000,000	—	2,000,000
Financial assets held for trading	—	—	—	—	—	—	482,159	482,159
Financial assets designated as at fair value through profit or loss	—	—	3,709,863	1,566,087	2,770,093	—	—	8,046,043
Financial assets held under resale agreements	—	—	17,139,933	9,230,502	10,787,583	—	—	37,158,018
Loans and advances to customers	1,243,068	—	3,533,443	4,497,875	22,205,411	47,304,980	38,147,577	116,932,354
Available-for-sale financial assets	62,925	—	—	—	—	240,790	1,140,722	1,444,437
Held-to-maturity investments	—	—	1,099,930	1,499,677	1,578,421	9,557,821	22,973,011	36,708,860
Debt securities classified as receivables	—	—	1,945,441	755,939	5,010,553	12,642,030	865,902	21,219,865
Other financial assets	—	1,739,769	—	—	35,141	129,105	50,547	1,954,562
Total financial assets	34,481,862	9,003,295	33,835,248	22,236,937	44,433,202	72,574,726	63,659,918	280,225,188
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	—	3,656,882	4,113,976	2,708,000	1,200,000	—	—	11,678,858
Financial liabilities designated as at fair value through profit or loss	—	—	—	—	444,806	—	—	444,806
Financial assets sold under repurchase agreements	—	—	18,104,394	5,734,460	11,923,833	—	—	35,762,687
Due to customers	—	101,681,225	8,340,210	21,827,247	59,248,458	14,027,302	179,750	205,304,192
Debt securities issued	—	—	—	—	—	—	2,300,000	2,300,000
Other financial liabilities	—	4,049,635	—	—	—	—	37,884	4,087,519
Total financial liabilities	—	109,387,742	30,558,580	30,269,707	72,817,097	14,027,302	2,517,634	259,578,062
Net position	34,481,862	(100,384,447)	3,276,668	(8,032,770)	(28,383,895)	58,547,424	61,142,284	20,647,126

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49. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Analysis of the remaining maturity of the financial assets and liabilities (Continued)

THE BANK (Continued)

	Past due/undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2009								
Non-derivative financial assets								
Cash and balances with central bank	19,992,329	7,423,605	—	—	—	—	—	27,415,934
Deposits with banks and other financial institutions	—	6,380,511	2,500,000	—	1,273,899	—	—	10,154,410
Financial assets designated as at fair value through profit or loss	—	—	2,019,143	2,174,114	1,855,338	499,997	—	6,548,592
Financial assets held under resale agreements	—	—	12,417,196	—	957,000	—	—	13,374,196
Loans and advances to customers	1,700,349	—	18,051,371	6,215,422	22,911,588	34,073,553	13,863,420	96,815,703
Available-for-sale financial assets	245,753	—	—	—	—	182,059	972,594	1,400,406
Held-to-maturity investments	—	—	119,932	1,016,401	1,368,531	8,666,282	13,036,113	24,207,259
Debt securities classified as receivables	—	—	299,994	—	7,279,249	6,830,290	864,583	15,274,116
Other financial assets	—	1,038,428	—	—	33,705	134,262	69,768	1,276,163
Total financial assets	21,938,431	14,842,544	35,407,636	9,405,937	35,679,310	50,386,443	28,806,478	196,466,779
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	—	1,277,619	—	—	150,000	2,707,959	—	4,135,578
Financial assets sold under repurchase agreements	—	—	16,427,665	4,919,703	5,158,219	—	—	26,505,587
Due to customers	—	68,307,302	7,464,430	16,378,898	49,715,220	11,750,259	160,294	153,776,403
Debt securities issued	—	—	—	—	—	—	2,300,000	2,300,000
Other financial liabilities	—	2,887,826	—	—	—	—	37,884	2,925,710
Total financial liabilities	—	72,472,747	23,892,095	21,298,601	55,023,439	14,458,218	2,498,178	189,643,278
Net position	21,938,431	(57,630,203)	11,515,541	(11,892,664)	(19,344,129)	35,928,225	26,308,300	6,823,501

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows

The tables below present the cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the undiscounted contractual cash flows.

THE GROUP

	Past due/undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2010								
Non-derivative financial assets								
Cash and balances with central bank	33,195,245	4,142,889	—	—	—	—	—	37,338,134
Deposits with banks and other financial institutions	—	3,321,736	6,488,621	4,732,934	2,128,869	744,049	—	17,416,209
Placement with other financial institutions	—	—	—	—	—	2,132,667	—	2,132,667
Financial assets held for trading	—	—	—	—	—	—	646,317	646,317
Financial assets designated as at fair value through profit or loss	—	—	3,714,224	1,576,185	2,840,943	—	—	8,131,352
Financial assets held under resale agreements	—	—	17,319,769	9,380,857	11,021,791	—	—	37,722,417
Loans and advances to customers	2,851,884	—	3,749,254	5,208,247	25,425,885	58,418,721	54,206,096	149,860,087
Available-for-sale financial assets	62,925	—	705	17,943	54,805	518,243	1,375,541	2,030,162
Held-to-maturity investments	—	—	1,170,834	1,771,902	2,377,429	13,315,336	29,852,746	48,488,247
Debt securities classified as receivables	—	—	1,970,540	899,021	5,432,485	13,731,923	1,385,642	23,419,611
Other financial assets	—	177,681	—	—	35,633	135,034	55,855	404,203
Total financial assets	36,110,054	7,642,306	34,413,947	23,587,089	49,317,840	88,995,973	87,522,197	327,589,406
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	—	3,707,032	4,143,578	2,730,998	1,222,298	—	—	11,803,906
Financial liabilities designated as at fair value through profit or loss	—	—	—	—	466,652	—	—	466,652
Financial assets sold under repurchase agreements	—	—	18,247,301	5,815,358	12,193,647	—	—	36,256,306
Due to customers	—	102,118,412	8,559,000	22,416,990	60,950,528	15,554,591	179,780	209,779,301
Debt securities issued	—	—	—	—	126,500	575,000	3,082,000	3,783,500
Other financial liabilities	—	1,633,318	—	—	—	—	44,764	1,678,082
Total financial liabilities	—	107,458,762	30,949,879	30,963,346	74,959,625	16,129,591	3,306,544	263,767,747
Net position	36,110,054	(99,816,456)	3,464,068	(7,376,257)	(25,641,785)	72,866,382	84,215,653	63,821,659

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

THE BANK

	Past due/undated	On demand	Less than 1month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2010								
Non-derivative financial assets								
Cash and balances with central bank	33,175,869	4,140,878	—	—	—	—	—	37,316,747
Deposits with banks and other financial institutions	—	3,140,095	6,428,621	4,732,934	2,128,869	744,049	—	17,174,568
Placement with other financial institutions	—	—	—	—	—	2,132,667	—	2,132,667
Financial assets held for trading	—	—	—	—	—	—	646,317	646,317
Financial assets designated as at fair value through profit or loss	—	—	3,714,224	1,576,185	2,840,943	—	—	8,131,352
Financial assets held under resale agreements	—	—	17,319,769	9,380,857	11,021,791	—	—	37,722,417
Loans and advances to customers	2,851,885	—	3,748,424	5,206,588	25,239,776	58,412,431	54,206,096	149,665,200
Available-for-sale financial assets	62,925	—	705	17,943	54,805	518,243	1,375,541	2,030,162
Held-to-maturity investments	—	—	1,170,834	1,771,902	2,377,429	13,315,336	29,852,746	48,488,247
Debt securities classified as receivables	—	—	1,970,540	899,021	5,432,485	13,731,923	1,385,642	23,419,611
Other financial assets	—	177,626	—	—	35,633	135,034	55,855	404,148
Total financial assets	36,090,679	7,458,599	34,353,117	23,585,430	49,131,731	88,989,683	87,522,197	327,131,436
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	—	3,659,289	4,143,578	2,730,998	1,222,298	—	—	11,756,163
Financial liabilities designated as at fair value through profit or loss	—	—	—	—	466,652	—	—	466,652
Financial assets sold under repurchase agreements	—	—	18,247,301	5,815,358	12,193,647	—	—	36,256,306
Due to customers	—	101,893,089	8,558,423	22,416,255	60,918,030	15,554,331	179,780	209,519,908
Debt securities issued	—	—	—	—	126,500	575,000	3,082,000	3,783,500
Other financial liabilities	—	1,631,894	—	—	—	—	44,764	1,676,658
Total financial liabilities	—	107,184,272	30,949,302	30,962,611	74,927,127	16,129,331	3,306,544	263,459,187
Net position	36,090,679	(99,725,673)	3,403,815	(7,377,181)	(25,795,396)	72,860,352	84,215,653	63,672,249

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

THE BANK (Continued)

	Past due/undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2009								
Non-derivative financial assets								
Cash and balances with central bank	19,992,329	7,434,684	—	—	—	—	—	27,427,013
Deposits with banks and other financial institutions	—	6,382,823	2,504,347	2,376	1,292,669	—	—	10,182,215
Financial assets designated as at fair value through profit or loss	—	—	2,041,630	2,205,152	1,900,169	511,808	—	6,658,759
Financial assets held under resale agreements	—	—	12,438,109	10,277	981,076	—	—	13,429,462
Loans and advances to customers	3,370,715	—	18,302,520	7,262,594	26,334,085	39,150,099	16,968,818	111,388,831
Available-for-sale financial assets	245,753	—	—	17,943	39,433	400,918	1,151,420	1,855,467
Held-to-maturity investments	—	—	175,904	1,259,376	2,090,430	11,606,032	15,950,046	31,081,788
Debt securities classified as receivables	—	—	300,775	65,950	7,762,515	7,596,375	1,218,677	16,944,292
Other financial assets	—	79,763	—	—	35,633	135,565	80,737	331,698
Total financial assets	23,608,797	13,897,270	35,763,285	10,823,668	40,436,010	59,400,797	35,369,698	219,299,525
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	—	1,278,627	—	—	155,012	2,742,389	—	4,176,028
Financial assets sold under repurchase agreements	—	—	16,519,402	5,041,221	5,257,195	—	—	26,817,818
Due to customers	—	68,496,949	7,657,172	16,833,742	51,191,554	13,255,582	163,777	157,598,776
Debt securities issued	—	—	—	—	126,500	506,000	3,277,500	3,910,000
Other financial liabilities	—	642,099	—	—	—	—	44,764	686,863
Total financial liabilities	—	70,417,675	24,176,574	21,874,963	56,730,261	16,503,971	3,486,041	193,189,485
Net position	23,608,797	(56,520,405)	11,586,711	(11,051,295)	(16,294,251)	42,896,826	31,883,657	26,110,040

Assets available to meet all of the liabilities include cash, balances with central banks, deposits with banks and other financial institutions, financial assets held for trading and financial assets designated as at fair value through profit or loss. In the normal course of business, the majority of customer deposits repayable on demand are expected to be revolved.

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49. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Off-balance sheet items

Off-balance sheet items of the Group include letters of guarantee and acceptances. The tables below set forth the amounts of the off-balance sheet items by remaining maturity.

THE GROUP AND THE BANK

	Up to 1 year	1–5 years	Over 5 years	Total
2010				
Letters of credit issued	337,458	—	—	337,458
Letters of guarantee	47,992	—	—	47,992
Acceptances	4,844,128	—	—	4,844,128
Total	<u>5,229,578</u>	<u>—</u>	<u>—</u>	<u>5,229,578</u>

THE BANK

	Up to 1 year	1–5 years	Over 5 years	Total
2009				
Letters of guarantee	7,365	—	—	7,365
Acceptances	2,976,611	—	—	2,976,611
Total	<u>2,983,976</u>	<u>—</u>	<u>—</u>	<u>2,983,976</u>

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49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk

Market risk is the risk of loss, in respect of the Bank's and the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, and stock prices. Market risk arises from the proprietary business of the Group and the Bank.

The Group considers the market risk arising from equity prices in respect of its trading and investment portfolios is immaterial.

The Group is primarily exposed to interest rate risk arising from corporate and personal banking. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of interest-generating assets and interest-bearing liabilities.

The Group's foreign currency risk is the risk of loss in respect of its foreign currency exposures, arising from transactions taken on foreign currency denominated assets and liabilities, which results from movements in foreign currency exchange rates.

Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent other currencies. Transactions in foreign currencies mainly arise from the Group's treasury exposures.

The exchange rate of RMB to USD is under a managed floating exchange rate system. The exchange rate of RMB to USD has gradually risen over the past two years. The HKD exchange rate has been pegged to the USD and therefore the exchange rate of RMB to HKD has fluctuated in line with the changes in the exchange rate of RMB to USD.

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49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Foreign currency risk (Continued)

THE GROUP

	As at 31 December 2010				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	
Cash and balances with central bank	37,310,342	9,206	2,085	—	37,321,633
Deposits with banks and other financial institutions	7,131,529	4,175,643	5,897,191	15,874	17,220,237
Placement with other financial institutions	2,000,000	—	—	—	2,000,000
Financial assets held for trading	482,159	—	—	—	482,159
Financial assets designated as at fair value through profit or loss	8,046,043	—	—	—	8,046,043
Financial assets held under resale agreements	37,158,018	—	—	—	37,158,018
Loans and advances to customers	117,114,024	—	—	—	117,114,024
Available-for-sale financial assets	1,381,512	—	—	—	1,381,512
Held-to-maturity investments	36,708,860	—	—	—	36,708,860
Debt securities classified as receivables	21,219,865	—	—	—	21,219,865
Other financial assets	1,955,013	—	—	—	1,955,013
Total financial assets	270,507,365	4,184,849	5,899,276	15,874	280,607,364

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Foreign currency risk (Continued)

THE GROUP (Continued)

	As at 31 December 2010				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	
Deposits from banks and other financial institutions	11,634,404	77,362	—	—	11,711,766
Financial liabilities designated as at fair value through profit or loss	444,806	—	—	—	444,806
Financial assets sold under repurchase agreements	35,762,687	—	—	—	35,762,687
Due to customers	205,071,128	99,471	378,754	13,669	205,563,022
Debt securities issued	2,300,000	—	—	—	2,300,000
Other financial liabilities	4,089,139	—	—	—	4,089,139
Total financial liabilities	259,302,164	176,833	378,754	13,669	259,871,420
Net position	11,205,201	4,008,016	5,520,522	2,205	20,735,944

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49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Foreign currency risk (Continued)

THE BANK

	As at 31 December 2010				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	
Cash and balances with central bank	37,288,964	9,206	2,085	—	37,300,255
Deposits with banks and other financial institutions	6,889,927	4,175,643	5,897,191	15,874	16,978,635
Placement with other financial institutions	2,000,000	—	—	—	2,000,000
Financial assets held for trading	482,159	—	—	—	482,159
Financial assets designated as at fair value through profit or loss	8,046,043	—	—	—	8,046,043
Financial assets held under resale agreements	37,158,018	—	—	—	37,158,018
Loans and advances to customers	116,932,354	—	—	—	116,932,354
Available-for-sale financial assets	1,381,512	—	—	—	1,381,512
Held-to-maturity investments	36,708,860	—	—	—	36,708,860
Debt securities classified as receivables	21,219,865	—	—	—	21,219,865
Other financial assets	1,954,562	—	—	—	1,954,562
Total financial assets	270,062,264	4,184,849	5,899,276	15,874	280,162,263

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Foreign currency risk (Continued)

THE BANK (Continued)

	As at 31 December 2010				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	
Deposits from banks and other financial institutions	11,601,496	77,362	—	—	11,678,858
Financial liabilities designated as at fair value through profit or loss	444,806	—	—	—	444,806
Financial assets sold under repurchase agreements	35,762,687	—	—	—	35,762,687
Due to customers	204,812,298	99,471	378,754	13,669	205,304,192
Debt securities issued	2,300,000	—	—	—	2,300,000
Total financial liabilities	<u>4,087,519</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,087,519</u>
Total financial liabilities	<u>259,008,806</u>	<u>176,833</u>	<u>378,754</u>	<u>13,669</u>	<u>259,578,062</u>
Net position	<u>11,053,458</u>	<u>4,008,016</u>	<u>5,520,522</u>	<u>2,205</u>	<u>20,584,201</u>

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Foreign currency risk (Continued)

THE BANK (Continued)

	As at 31 December 2009				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	
Cash and balances with central bank	27,415,934	—	—	—	27,415,934
Deposits with banks and other financial institutions	10,086,248	65,534	1,642	986	10,154,410
Financial assets designated as at fair value through profit or loss	6,548,592	—	—	—	6,548,592
Financial assets held under resale agreements	13,374,196	—	—	—	13,374,196
Loans and advances to customers	96,815,703	—	—	—	96,815,703
Available-for-sale financial assets	1,154,653	—	—	—	1,154,653
Held-to-maturity investments	24,207,259	—	—	—	24,207,259
Investment securities classified as receivables	15,274,116	—	—	—	15,274,116
Other financial assets	1,276,163	—	—	—	1,276,163
Total financial assets	196,152,864	65,534	1,642	986	196,221,026
Deposits from banks and other financial institutions	4,135,578	—	—	—	4,135,578
Financial assets sold under repurchase agreement	26,505,587	—	—	—	26,505,587
Due to customers	153,750,230	26,172	1	—	153,776,403
Debt securities issued	2,300,000	—	—	—	2,300,000
Total financial liabilities	2,925,710	—	—	—	2,925,710
Total financial liabilities	189,617,105	26,172	1	—	189,643,278
Net position	6,535,759	39,362	1,641	986	6,577,748

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49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Foreign currency risk (Continued)

The table below indicates the potential effect of an appreciation or depreciation of RMB spot and forward exchange rate against all other currencies by 5% on the profit before tax.

THE GROUP AND BANK

	31.12.2010	
	Profit before tax	Equity
5% appreciation	<u>(357,403)</u>	<u>—</u>
5% depreciation	<u>357,403</u>	<u>—</u>

The impact on the profit before tax arises from the effects of movement in RMB exchange rate on the net positions of foreign monetary assets and liabilities.

The effect on the profit before tax is based on the assumption that the Group's net foreign currency at the end of the reporting period remain unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ to the actual situation.

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Interest rate risk

The interest rate risk of the Group arises from the mis-matches between contractual maturities and re-pricing of interest-generating assets and interest-bearing liabilities. The interest-generating assets and interest-bearing liabilities of the Group are mainly denominated in RMB. The PBOC establishes RMB benchmark interest rates which include a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- Regularly monitoring the macro-economic factors that may impact on the PBOC benchmark interest rates;
- Minimising the mis-matches between contractual maturities and repricing of interest generating assets and interest-bearing liabilities; and
- Enhancing the interest rate margin on interest-generating assets and interest-bearing liabilities with reference to the prevailing PBOC benchmark interest rates.

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Bank's and the Group's financial assets and liabilities.

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Interest rate risk (Continued)

THE GROUP

	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
2010							
Cash and balances with central bank	35,027,398	—	—	—	—	2,294,235	37,321,633
Deposits with banks and other financial institutions	9,787,380	4,686,857	2,046,000	700,000	—	—	17,220,237
Placement with other financial institutions	—	—	—	2,000,000	—	—	2,000,000
Financial assets held for trading	—	—	—	—	482,159	—	482,159
Financial assets designated as at fair value through profit or loss	3,709,863	1,566,087	2,770,093	—	—	—	8,046,043
Financial assets held under resale agreements	17,139,933	9,230,502	10,787,583	—	—	—	37,158,018
Loans and advances to customers	74,694,126	5,450,765	30,736,334	4,789,592	1,443,207	—	117,114,024
Available-for-sale financial assets	—	—	—	240,790	1,140,722	—	1,381,512
Held-to-maturity investments	1,099,930	1,499,677	1,578,421	9,557,821	22,973,011	—	36,708,860
Debt securities classified as receivables	1,945,441	755,939	5,010,553	12,642,030	865,902	—	21,219,865
Other financial assets	—	—	—	—	—	1,955,013	1,955,013
Total financial assets	143,404,071	23,189,827	52,928,984	29,930,233	26,905,001	4,249,248	280,607,364
Deposits from banks and other financial institutions	7,803,766	2,708,000	1,200,000	—	—	—	11,711,766
Financial liabilities designated as at fair value through profit or loss	—	—	444,806	—	—	—	444,806
Financial assets sold under repurchase agreements	18,104,394	5,734,460	11,923,833	—	—	—	35,762,687
Due to customers	110,247,264	21,827,979	59,280,490	14,027,539	179,750	—	205,563,022
Debt securities issued	—	—	—	—	2,300,000	—	2,300,000
Other financial liabilities	—	—	—	—	37,884	4,051,255	4,089,139
Total financial liabilities	136,155,424	30,270,439	72,849,129	14,027,539	2,517,634	4,051,255	259,871,420
Interest rate gap	7,248,647	(7,080,612)	(19,920,145)	15,902,694	24,387,367	197,993	20,735,944

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Interest rate risk (Continued)

THE BANK

	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
2010							
Cash and balances with central bank	35,007,817	—	—	—	—	2,292,438	37,300,255
Deposits with banks and other financial institutions	9,545,778	4,686,857	2,046,000	700,000	—	—	16,978,635
Placement with other financial institutions	—	—	—	2,000,000	—	—	2,000,000
Financial assets held for trading	—	—	—	—	482,159	—	482,159
Financial assets designated as at fair value through profit or loss	3,709,863	1,566,087	2,770,093	—	—	—	8,046,043
Financial assets held under resale agreements	17,139,933	9,230,502	10,787,583	—	—	—	37,158,018
Loans and advances to customers	74,694,126	5,450,765	30,560,109	4,784,147	1,443,207	—	116,932,354
Available-for-sale financial assets	—	—	—	240,790	1,140,722	—	1,381,512
Held-to-maturity investments	1,099,930	1,499,677	1,578,421	9,557,821	22,973,011	—	36,708,860
Debt securities classified as receivables	1,945,441	755,939	5,010,553	12,642,030	865,902	—	21,219,865
Other financial assets	—	—	—	—	—	1,954,562	1,954,562
Total financial assets	143,142,888	23,189,827	52,752,759	29,924,788	26,905,001	4,247,000	280,162,263
Deposits from banks and other financial institutions	7,770,858	2,708,000	1,200,000	—	—	—	11,678,858
Financial liabilities designated as at fair value through profit or loss	—	—	444,806	—	—	—	444,806
Financial assets sold under repurchase agreements	18,104,394	5,734,460	11,923,833	—	—	—	35,762,687
Due to customers	110,021,435	21,827,247	59,248,458	14,027,302	179,750	—	205,304,192
Debt securities issued	—	—	—	—	2,300,000	—	2,300,000
Other financial liabilities	—	—	—	—	37,884	4,049,635	4,087,519
Total financial liabilities	135,896,687	30,269,707	72,817,097	14,027,302	2,517,634	4,049,635	259,578,062
Interest rate gap	7,246,201	(7,079,880)	(20,064,338)	15,897,486	24,387,367	197,365	20,584,201

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Interest rate risk (Continued)

THE BANK (Continued)

	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
2009							
Cash and balances with central bank	25,390,243	—	—	—	—	2,025,691	27,415,934
Deposits with banks and other financial institutions	8,880,511	—	1,273,899	—	—	—	10,154,410
Financial assets designated as at fair value through profit or loss	2,019,143	2,174,114	1,855,338	499,997	—	—	6,548,592
Financial assets held under resale agreements	12,417,196	—	957,000	—	—	—	13,374,196
Loans and advances to customers	52,624,716	6,979,049	35,248,881	1,782,878	180,179	—	96,815,703
Available-for-sale financial assets	—	—	—	182,059	972,594	—	1,154,653
Held-to-maturity investments	119,932	1,016,401	1,368,531	8,666,282	13,036,113	—	24,207,259
Debt securities classified as receivables	299,994	—	7,279,249	6,830,290	864,583	—	15,274,116
Other financial assets	—	—	—	—	—	1,276,163	1,276,163
Total financial assets	101,751,735	10,169,564	47,982,898	17,961,506	15,053,469	3,301,854	196,221,026
Deposits from banks	1,277,619	—	—	150,000	2,707,959	—	4,135,578
Financial assets sold under repurchase agreements	16,427,665	4,919,703	5,158,219	—	—	—	26,505,587
Due to customers	75,771,732	16,378,898	49,715,220	11,750,259	160,294	—	153,776,403
Debt securities issued	—	—	—	—	2,300,000	—	2,300,000
Other financial liabilities	—	—	—	—	37,884	2,887,826	2,925,710
Total financial liabilities	93,477,016	21,298,601	54,873,439	11,900,259	5,206,137	2,887,826	189,643,278
Interest rate gap	8,274,719	(11,129,037)	(6,890,541)	6,061,247	9,847,332	414,028	6,577,748

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

Interest rate risk (Continued)

The following table illustrates the potential impact after taxation of a parallel upward or downward shift of 100 basis points in RMB's yield curve on the net interest income and equity, based on the Bank's and the Group's position of interest-bearing assets and liabilities at the end of the reporting period.

	THE GROUP		THE BANK			
	2010		2010		2009	
	Net interest income	Equity	Net interest income	Equity	Net interest income	Equity
+100 basis points	620,051	(79,791)	618,677	(79,791)	432,937	(2,178)
-100 basis points	<u>(620,051)</u>	<u>86,100</u>	<u>(618,677)</u>	<u>86,100</u>	<u>(432,937)</u>	<u>2,186</u>

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates in the coming year with the assumption that the structure of financial assets and financial liabilities held at the end of the reporting period remain unchanged.

The sensitivity analysis on equity is the effect on changes of fixed rate available-for-sale financial assets at end of the reporting period after adjusting in accordance with the reasonably possible changes in interest rates.

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49. FINANCIAL RISK MANAGEMENT (Continued)

Capital management

The Bank's and the Group's objectives on capital management are to:

- safeguard the Bank's and the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- support the Bank's and the Group's stability and growth;
- allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and
- maintain an adequate capital base to support the development of its business.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital should not exceed 50% of the core capital. When total positions of trading accounts exceed 10% of the on and off balance sheet total assets, or RMB8.5 billion, commercial banks must provide for market risk capital. At present, the Group is fully compliant with legal and regulatory requirements.

The on-balance sheet risk-weighted assets are measured according to the nature of, and are reflecting an estimate of credit, market and other risks associated with, each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses.

The Bank's and the Group compute the capital adequacy ratio in accordance with Decision of China Banking Regulatory Commission on Revising the Measures for the Management of Capital Adequacy Ratios of Commercial Banks, Notice from China Banking Regulatory Commission on the Relevant Issues on Calculating the Capital Adequacy Ratio After Banks and Financial Institutions Implementing <Accounting Standards for Business Enterprises> and other related regulations promulgated by the CBRC.

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Capital management (Continued)

	THE GROUP	THE BANK	
	2010	2010	2009
Core capital adequacy ratio (note 1)	14.78%	14.74%	8.14%
Capital adequacy ratio (note 2)	16.31%	16.26%	10.23%
Component of capital base			
Core capital:			
Share capital	9,000,000	9,000,000	6,000,000
Capital contribution	7,616,488	7,616,488	—
Surplus reserve and general and regulatory reserves	2,479,666	2,479,666	755,649
Unappropriated profit	2,768,058	2,771,135	2,142,799
Non-controlling interests	85,244	—	—
Core capital	21,949,456	21,867,289	8,898,448
Deductions	44,586	44,586	58,725
Net core capital	<u>21,904,870</u>	<u>21,822,703</u>	<u>8,839,723</u>
Supplementary capital:			
Reserve of fair value changes of available-for-sale financial assets (note 3)	8,227	8,227	32,861
Long-term subordinated bonds	2,300,000	2,300,000	2,300,000
Total capital base before deductions	24,257,683	24,175,516	11,231,309
Deductions:			
Equity investments which are not consolidated	—	—	11,050
Other deductible item	89,173	89,173	106,400
Total capital base after deductions	<u>24,168,510</u>	<u>24,086,343</u>	<u>11,113,859</u>
Risk-weighted assets and market risk capital adjustment (note 4)	<u>148,206,651</u>	<u>148,093,448</u>	<u>108,589,587</u>

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

Capital management (Continued)

Notes:

- (1) Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 50% unconsolidated equity investments, by risk-weighted assets and market risk capital adjustment.
- (2) Capital adequacy ratio is calculated by dividing total capital base after deductions by risk-weighted assets and market risk capital adjustment.
- (3) The reserve arising from the cumulative net positive changes in the fair value of available-for-sale financial assets is excluded from the core capital and 50% of the balance is included in the supplementary capital.
- (4) The amount of market risk capital adjustment equals 12.5 times of the market risk capital.

50. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets is determined with reference to quoted market bid prices and ask prices respectively;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments. Where such prices are not available, discounted cash flow analysis is adopted by using the applicable yield curve for the duration of the instruments, to the extent possible;
- the fair value of unlisted debt instruments issued by financial institutions is estimated based on the net asset value per unit reported by the issuers.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The tables below summarise the carrying amounts and fair values of those financial assets and liabilities not presented on the statements of financial position at their fair value. Financial assets and liabilities for which the carrying amounts approximates fair value, such as balances with central bank, deposits with banks and other financial institutions, placement with other financial institutions, financial assets held under resale agreements, deposits from banks and other financial institutions and financial assets sold under repurchase agreements issued are not included in the tables below.

	THE GROUP		THE BANK			
	2010		2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Loans and advances to customers	117,114,024	116,942,326	116,932,354	116,760,656	96,815,703	97,136,398
Held-to-maturity investments	36,708,860	36,753,352	36,708,860	36,753,352	24,207,259	25,144,143
Debt securities classified as receivables	21,219,865	21,137,637	21,219,865	21,137,637	15,274,116	15,364,677
Total	175,042,749	174,833,315	174,861,079	174,651,645	136,297,078	137,645,218
Financial liabilities						
Due to customers	205,563,022	207,126,738	205,304,192	206,867,908	153,776,403	154,563,969
Debt securities issued	2,300,000	2,216,280	2,300,000	2,216,280	2,300,000	2,303,519
Total	207,863,022	209,343,018	207,604,192	209,084,188	156,076,403	156,867,488

Notes to the Consolidated Financial Statements

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(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

THE GROUP

	Level 1	Level 2	Level 3	Total
2010				
Financial assets held for trading	—	482,159	—	482,159
Financial assets designated as at fair value through profit or loss	—	8,046,043	—	8,046,043
Available-for-sale financial assets	33,660	1,381,512	—	1,415,172
Total assets	33,660	9,909,714	—	9,943,374
Financial liabilities designated as at fair value through profit or loss	—	444,806	—	444,806
Total liabilities	—	444,806	—	444,806

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2010

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

THE BANK

	Level 1	Level 2	Level 3	Total
2010				
Financial assets held for trading	—	482,159	—	482,159
Financial assets designated as at fair value through profit or loss	—	8,046,043	—	8,046,043
Available-for-sale financial assets	33,660	1,381,512	—	1,415,172
Total assets	33,660	9,909,714	—	9,943,374
Financial liabilities designated as at fair value through profit or loss	—	444,806	—	444,806
Total liabilities	—	444,806	—	444,806
2009				
Financial assets designated as at fair value through profit or loss	—	6,548,592	—	6,548,592
Available-for-sale financial assets	205,438	1,154,653	—	1,360,091
Total assets	205,438	7,703,245	—	7,908,683

51. SUBSEQUENT FINANCIAL STATEMENTS

On 5 January 2011, Bank issued additional 300,000,000 H shares with par value of RMB1 per share at offer price of HKD5.25 per share as the over-allotment options granted during the initial public offering were fully exercised.



Unaudited Supplementary Financial Information

Difference between the Financial Statements prepared under PRC GAAP and those prepared in accordance with IFRS

In 2010, the total assets and total equity in the consolidated financial statements prepared by the Group in accordance with PRC GAAP amounted to RMB285,081 million and RMB21,965 million respectively; the total assets and total equity in the consolidated financial statements prepared in accordance with IFRS amounted to RMB285,546 million and RMB22,430 million respectively. The differences in total assets and total equity were both RMB465 million, mainly due to RMB440 million of “intangible assets-goodwill” and RMB25 million of carrying amount of “intangible assets-customer relationship”, which were recognised on the establishment of the Bank in the consolidated financial statements prepared under IFRS.

In 2010, profit for the year in the consolidated financial statements prepared by the Group in accordance with PRC GAAP amounted to RMB3,110 million; profit for the year in the consolidated financial statements prepared in accordance with IFRS amounted to RMB3,061 million. The difference amounted to RMB49 million, mainly due to RMB49 million of amortisation for “intangible assets -customer relationship” charged to the profit for the year in the consolidated financial statements prepared under IFRS.

The following financial information was disclosed on basis of the contractual amount of loans for the purpose of providing the information for the management to evaluate financial risks. (Please refer to page 6 of basis of preparation of loans and advances to customers shown as contractual amount)

Difference between the Financial Statements prepared under PRC GAAP and those prepared in accordance with IFRS (Continued)

Loans and advances to customers (Contractual amount)

(1) Distributions of loans and advances to customers by corporate and by retail customers are as follows:

(Expressed in RMB million)	December 31, 2010		December 31, 2009
	The Group	The Group	The Bank
Corporate loans and advances			
— Loans	76,612.8	76,593.9	57,569.0
— Discounted bills	2,929.4	2,929.4	16,148.6
— Trade financing	2.5	2.5	—
Subtotal	79,544.7	79,525.8	73,717.6
Retail loans and advances			
— Residential and commercial mortgage loans	24,003.0	24,003.0	12,333.6
— Personal loans for business purposes	11,289.5	11,125.0	8,717.8
— Loans to farmers	3,163.3	3,163.3	4,321.7
— Others	4,144.6	4,144.6	2,730.4
Subtotal	42,600.4	42,435.9	28,103.5
Total loans and advances to customers	122,145.1	121,961.7	101,821.1
Allowance for impairment losses	(5,031.1)	(5,029.3)	(5,005.4)
Include: Individually assessed	(624.3)	(624.3)	(947.0)
Collectively assessed	(4,406.8)	(4,405.0)	(4,058.4)
Loans and advances to customers, net	117,114.0	116,932.4	96,815.7

Difference between the Financial Statements prepared under PRC GAAP and those prepared in accordance with IFRS (Continued)

Loans and advances to customers (Contractual amount) (Continued)

(2) Loans and advances to customers by assessment method are set out as follows:

The Group

(Expressed in RMB million, unless otherwise stated)	Identified impaired loans and advances					Total	Identified impaired loans and advances as a percentage of gross total loans and advances (%)
	Loans and advances for which allowance is collectively assessed (i)	For which allowance is collectively assessed	For which allowance is individually assessed	Sub-total			
December 31, 2010							
Gross loans and advances	119,233.8	1,508.8	1,402.5	2,911.3	122,145.1	2.38	
Allowance for impairment losses	(3,262.3)	(1,144.5)	(624.3)	(1,768.8)	(5,031.1)		
Loans and advances to customers, net	<u>115,971.5</u>	<u>364.3</u>	<u>778.2</u>	<u>1,142.5</u>	<u>117,114.0</u>		

Difference between the Financial Statements prepared under PRC GAAP and those prepared in accordance with IFRS (Continued)

Loans and advances to customers (Contractual amount) (Continued)

(2) Loans and advances to customers by assessment method are set out as follows: (Continued)

The Bank

(Expressed in RMB million, unless otherwise stated)	Identified impaired loans and advances					Identified impaired loans and advances as a percentage of gross total loans and advances (%)
	Loans and advances for which allowance is collectively assessed (i)	For which allowance is collectively assessed	For which allowance is individually assessed	Sub-total	Total	
December 31, 2009						
Gross loans and advances	97,875.1	2,057.9	1,888.1	3,946.0	101,821.1	3.88
Allowance for impairment losses	(2,575.8)	(1,482.7)	(946.9)	(2,429.6)	(5,005.4)	
Loans and advances to customers, net	<u>95,299.3</u>	<u>575.2</u>	<u>941.2</u>	<u>1,516.4</u>	<u>96,815.7</u>	
December 31, 2010						
Gross loans and advances	119,050.4	1,508.8	1,402.5	2,911.3	121,961.7	2.39
Allowance for impairment losses	(3,260.5)	(1,144.5)	(624.3)	(1,768.8)	(5,029.3)	
Loans and advances to customers, net	<u>115,789.9</u>	<u>364.3</u>	<u>778.2</u>	<u>1,142.5</u>	<u>116,932.4</u>	

Difference between the Financial Statements prepared under PRC GAAP and those prepared in accordance with IFRS (Continued)

Loans and advances to customers (Contractual amount) (Continued)

(3) Allowance for impairment losses on loans and advances to customers

The Group

(Expressed in RMB million)	For the year ended 2010		Total
	Individually assessed allowance	Collectively assessed allowance	
As at January 1	946.9	4,058.5	5,005.4
Net (reversals)/ additions	(422.8)	427.6	4.8
Written off	(40.9)	(373.2)	(414.1)
Recovery of loans and advances written off in previous years	224.7	350.3	575.0
Unwinding of discount	(83.6)	(56.4)	(140.0)
As at December 31	<u>624.3</u>	<u>4,406.8</u>	<u>5,031.1</u>

The Bank

(Expressed in RMB million)	For the year ended 2010		Total
	Individually assessed allowance	Collectively assessed allowance	
As at January 1	946.9	4,058.5	5,005.4
Net (reversals)/ additions	(422.8)	425.8	3.0
Written off	(40.9)	(373.2)	(414.1)
Recovery of loans and advances written off in previous years	224.7	350.3	575.0
Unwinding of discount	(83.6)	(56.4)	(140.0)
As at December 31	<u>624.3</u>	<u>4,405.0</u>	<u>5,029.3</u>

Difference between the Financial Statements prepared under PRC GAAP and those prepared in accordance with IFRS (Continued)

Loans and advances to customers (Contractual amount) (Continued)

(3) Allowance for impairment losses on loans and advances to customers (Continued)

(Expressed in RMB million)	For the year ended 2009		Total
	Individually assessed allowance	Collectively assessed allowance	
As at January 1	1,908.6	3,732.1	5,640.7
Net (reversals)/ additions	(829.6)	947.2	117.6
Written off	(414.5)	(907.6)	(1,322.1)
Recovery of loans and advances written off in previous years	437.8	360.5	798.3
Unwinding of discount	(155.4)	(73.7)	(229.1)
As at December 31	<u>946.9</u>	<u>4,058.5</u>	<u>5,005.4</u>

Over-Allotment of H Shares

On January 5, 2011, our Bank fully exercised our over-allotment options of H shares on Hong Kong Stock Exchange to allot additional 300,000,000 shares with a nominal value of RMB1.00 each at an issue price of HK\$5.25.

Liquidity ratios

(Expressed in percentages)	December 31, 2010	December 31, 2009
RMB current assets to RMB current liabilities	26.45	54.12
Foreign currency current assets to foreign currency current liabilities	<u>946.03</u>	<u>N/A</u>

Core liabilities ratios

(Expressed in percentages)	December 31, 2010	December 31, 2009
Core liabilities ratios ⁽¹⁾	<u>56.10</u>	<u>52.55</u>

- (1) The Group increased the amount of core liabilities by adjusting its deposits structure, and improved core liabilities ratios through measures such as reducing short-term non-core liabilities derived from the capital market, such as financial assets sold under repurchase agreements and deposits from banks. This indicator as at the end of 2010 increased by 3.55 percentage points as compared to the end of 2009, thus making it closer to regulatory standards.

The above liquidity ratios and core liabilities ratios are calculated in accordance with the formula promulgated by CBRC.

Currency concentrations

The Group

(Expressed in RMB million)	For the year ended 2010			Total
	US Dollars (equivalent to RMB)	Hong Kong Dollars (equivalent to RMB)	Others (equivalent to RMB)	
Spot assets	4,184.8	5,899.3	15.9	10,100.0
Spot liabilities	(176.8)	(378.8)	(13.7)	(569.3)
Net position	<u>4,008.0</u>	<u>5,520.5</u>	<u>2.2</u>	<u>9,530.7</u>

The Bank

Expressed in RMB million	For the year ended 2009			Total
	US Dollars (equivalent to RMB)	Hong Kong Dollars (equivalent to RMB)	Others (equivalent to RMB)	
Spot assets	65.5	1.6	1.0	68.1
Spot liabilities	(26.1)	-	-	(26.1)
Net position	<u>39.4</u>	<u>1.6</u>	<u>1.0</u>	<u>42.0</u>

Overdue assets

Total loans and advances to customers which have been overdue for following periods

Expressed in RMB million	December 31, 2010	December 31, 2009
Below 3 months (inclusive)	1,561.6	1,834.2
Between 3 and 12 months	952.8	1,828.3
Over 12 months	<u>2,059.2</u>	<u>1,884.4</u>
Total	<u>4,573.6</u>	<u>5,546.9</u>
percentage		
Below 3 months	34.14	33.07
Between 3 and 12 months	20.83	32.96
Over 12 months	<u>45.03</u>	<u>33.97</u>
Total	<u>100</u>	<u>100</u>

If principals or interests of loans are one day overdue of any period, the loans as a whole will be classified as overdue.

Geographical segment

When information is prepared based on the geographical segments, total operating income is allocated in accordance with the locations of branches recording gains. The table below sets forth the total operating income attributable to County Area branches and Urban Area branches for the periods indicated.

(Expressed in RMB million)	For the year ended December 31					
	2010			2009		
	County Area ⁽¹⁾	Urban Area	Total	County Area	Urban Area	Total
Net interest income	2,002.8	5,499.0	7,501.8	1,883.0	3,591.5	5,474.5
Net fee and commission income	103.4	182.4	285.8	91.4	45.3	136.7
Net trading (loss)/gain	0.0	(46.2)	(46.2)	0.0	8.3	8.3
Other operating income/(loss), net	39.0	(35.8)	3.2	44.4	12.9	57.3
Total operating income	2,145.2	5,599.4	7,744.6	2,018.8	3,658.0	5,676.8
Internal transfer of income and expense	1,972.7	(1,972.7)	0.0	1,549.5	(1,549.5)	0.0
Gain after adjustment	4,117.9	3,626.7	7,744.6	3,568.3	2,108.5	5,676.8

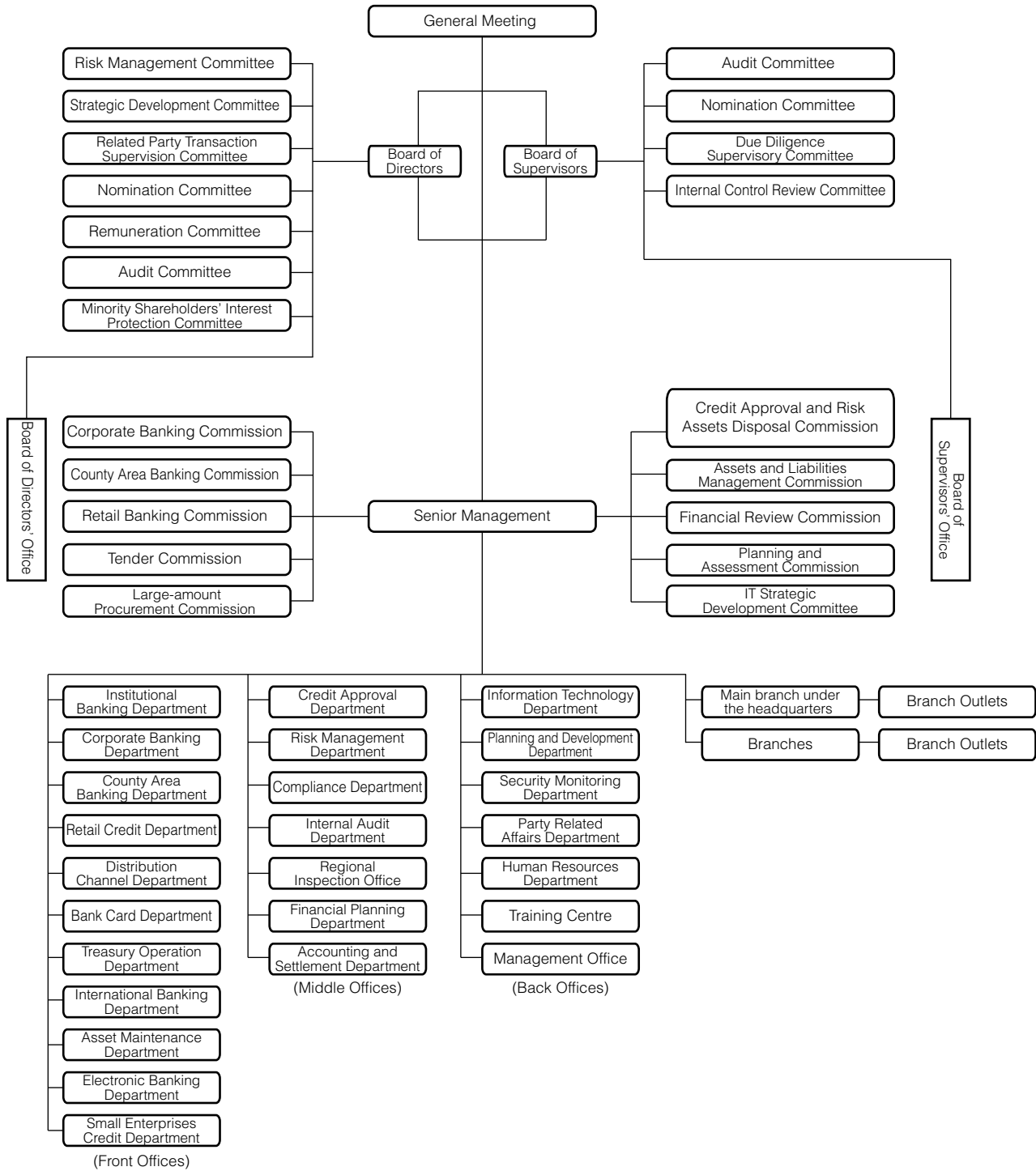
- (1) County Area refers to the regions other than Urban Area of Chongqing City. In 2010, the data of County Area also includes the data of three subsidiaries namely Jiangsu Zhangjiagang Huaxin Village and Township Bank Co., Ltd. (張家港華信村鎮銀行股份有限公司), Sichuan Dazhu Longyuan Village and Township Bank Co., Ltd. (四川大竹隆源村鎮銀行股份有限公司) and Yunnan Dali Haidong Village and Township Bank Co., Ltd. (雲南大理海東村鎮銀行有限公司).

Summary of geographical segment

Total loans and advances to customers which have been overdue for following periods

(Expressed in percentage)	As at December 31							
	2010		2009		2008		2007	
	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area
Deposits	66.66	33.34	69.69	30.31	74.26	25.74	74.07	25.93
Loans	47.76	52.24	45.28	54.72	55.30	44.70	59.27	40.73
Assets	48.80	51.20	54.99	45.01	53.83	46.17	55.21	44.79
Return on average total assets	1.31	1.20	1.01	1.05	1.07	1.76	4.12	1.64
Net fee and commission income to operating income	2.51	5.03	2.56	2.15	1.58	1.18	0.61	1.87
Cost-to-income ratio	44.46	44.34	56.32	37.20	52.34	26.12	28.20	31.76
Loan-to-deposit ratio	42.57	93.09	43.02	119.55	49.43	115.27	62.62	122.93
Non-performing loan ratio	4.32	0.61	7.20	1.13	12.82	3.57	17.72	6.68
Allowance to non-performing loans	137.16	404.25	107.45	229.32	80.99	94.30	64.53	58.66

Organization Chart





Branches And Subsidiaries

BRANCHES

Yuzhong Branch

Address: No. 142 Xinhua Road,
Yuzhong District, Chongqing City,
China

Postal Code: 400011
Tel: 023-63702177
Fax: 023-63716557

Jiangbei Branch

Address: No. 7 Buxing Street, Guanyin Bridge,
Jiangbei District,
Chongqing City, China

Postal Code: 400020
Tel: 023-67721582
Fax: 023-67723755

Xiyong Branch

Address: No. 28 Xiyong Avenue,
Shapingba District, Chongqing City,
China

Postal Code: 401333
Tel: 023-6551880
Fax: 023-6551880

High-tech Branch

Address: Tongtianlv Residential Area,
Block 15, No. 98 Kecheng Road,
Jiulongpo District,
Chongqing City, China

Postal Code: 400050
Tel: 023-68198061
Fax: 023-68198791

Dadukou Branch

Address: No. 351-1 Ganghua Road,
Xinshancun Street,
Dadukou District,
Chongqing City, China

Postal Code: 400084
Tel: 023-68917939
Fax: 023-68901484

Shapingba Branch

Address: No. 118 Xiaoyanggong Bridge,
Shapingba District,
Chongqing City, China

Postal Code: 400030
Tel: 023-65330998
Fax: 023-65332566

Jiulongpo Branch

Address: Annex 1, No. 2 Xijiao Road,
Yang Jia Ping, Jiulongpo District,
Chongqing City, China

Postal Code: 400050
Tel: 023-86105779
Fax: 023-68437557

Nan'an Branch

Address: No. 24 Jiangnan Avenue, Nanping,
Nan'an District,
Chongqing City, China

Postal Code: 400060
Tel: 023-62947564
Fax: 023-62947517

Beibei District

Address: No. 20 Beixia West Road, Beibei District, Chongqing City, China

Postal Code: 400070

Tel: 023-68864083

Fax: 023-68862728

Yubei Branch

Address: No. 93 Shuanglong Avenue, Yubei District, Chongqing City, China

Postal Code: 101120

Tel: 023-67813712

Fax: 023-67813711

Wansheng Branch

Address: No. 36 Wandong North Road, Wansheng District, Chongqing City, China

Postal Code: 400800

Tel: 023-48299505

Fax: 023-48299504

Fuling Branch

Address: No. 55 Xinghua Middle Road, Fuling District, Chongqing City, China

Postal Code: 408000

Tel: 023-72229797

Fax: 023-72237722

New North Zone Branch

Address: Annex 5, No. 8 Jincheng Road, Yubei District, Chongqing City, China

Postal Code: 401147

Tel: 023-63218501

Fax: 023-63218535

Ba'nan Branch

Address: No. 107 Yudong Baxian Avenue, Ba'nan District, Chongqing City, China

Postal Code: 401320

Tel: 023-66212977

Fax: 023-66222960

Shuangqiao Branch

Address: No. 6, 1/F, Block A, Shidai Plaza, Shuangqiao District, Chongqing City, China

Postal Code: 400900

Tel: 023-43336060

Fax: 023-43336060

Changshou Branch

Address: No. 13 Xiangyang Road, Fengcheng Street Office, Changshou District, Chongqing City, China

Postal Code: 401220

Tel: 023-40245293

Fax: 023-40258075

Jiangjin Branch

Address: Block E, Jinhui Garden,
Binjiang West Road,
Jijiang Street Office,
Jiangjin District, Chongqing City,
China

Postal Code: 402260
Tel: 023-47538041
Fax: 023-47522632

Yongchuan Branch

Address: No. 6 Guangchang Street,
Yongchuan District,
Chongqing City, China

Postal Code: 402160
Tel: 023-49863765
Fax: 023-49885099

Qijiang Branch

Address: Suit 1-4, Block 2,
No. 38 Longjiao Road,
Gunan Town, Qijiang County,
Chongqing City, China

Postal Code: 401420
Tel: 023-48663010
Fax: 023-48658598

Tongliang Branch

Address: No. 102 Zhongxing Road,
Bachuan Street, Tongliang County,
Chongqing City, China

Postal Code: 402560
Tel: 023-45689247
Fax: 023-45682975

Hechuan Branch

Address: No. 2 Jiuchang Road,
Hechuan District,
Chongqing City, China

Postal Code: 401520
Tel: 023-42835168
Fax: 023-42841214

Nanchuan Branch

Address: No. 28 Jinfo Avenue,
Nanchuan District,
Chongqing City, China

Postal Code: 408400
Tel: 023-71423626
Fax: 023-71429898

Tongnan Branch

Address: No. 50 Zhengxing Street,
Zitong Avenue, Tongnan County,
Chongqing City, China

Postal Code: 402660
Tel: 023-44553817
Fax: 023-44554249

Dazu Branch

Address: No. 21-35 Beihuan Middle Road,
Longgang Street Office,
Dazu County,
Chongqing City, China

Postal Code: 402360
Tel: 023-43789737
Fax: 023-43722323

Rongchang Branch

Address: No. 106 Haitang Avenue,
Changzhou Street Office,
Rongchang County,
Chongqing City, China

Postal Code: 402460

Tel: 023-46730454

Fax: 023-46739122

Wanzhou Branch

Address: No. 99 Taibai Road,
Wanzhou District, Chongqing City,
China

Postal Code: 404000

Tel: 023-58156268

Fax: 023-58156260

Liangping Branch

Address: No. 1, Block 26,
Minghao Commercial Area,
Liangshan Town,
Liangping County,
Chongqing City, China

Postal Code: 405200

Tel: 023-53223401

Fax: 023-53223401

Fengdu Branch

Address: No. 187 2nd Shangye Road,
Sanhe Town, Fengdu County,
Chongqing City, China

Postal Code: 408200

Tel: 023-70736444

Fax: 023-70736533

Bishan Branch

Address: No. 4 Bitong Road,
Bicheng Street Office,
Bishan County, Chongqing City,
China

Postal Code: 402760

Tel: 023-41401133

Fax: 023-41427834

Yunyang Branch

Address: No. 1335 Yunjiang Avenue,
Shuangjiang Town,
Yunyang County,
Chongqing City, China

Postal Code: 404500

Tel: 023-55161488

Fax: 023-55161499

Chengkou Branch

Address: No. 30 South Street,
Gecheng Town,
Chengkou County,
Chongqing City, China

Postal Code: 405900

Tel: 023-59221503

Fax: 023-59221093

Dianjiang Branch

Address: No. 12 Renmin East Road,
Guixi Town, Dianjiang County,
Chongqing City, China

Postal Code: 408300

Tel: 023-74511543

Fax: 023-74685719

Zhong County Branch

Address: No. 6 Zhoupinghuan Road,
Zhongzhou Town, Zhong County,
Chongqing City, China

Postal Code: 404300

Tel: 023-54243943

Fax: 023-54243942

Pengshui Branch

Address: Jinshan Plaza, Shizui Street,
Hanjia Town, Pengshui Miao and
Tujia Autonomous County,
Chongqing City, China

Postal Code: 409600

Tel: 023-78492863

Fax: 023-78849965

Wushan Branch

Address: No. 258 Guangdong East Road,
Wushan County, Chongqing City,
China

Postal Code: 404700

Tel: 023-57680904

Fax: 023-57680901

Qianjiang Branch

Address: No. 599 Jiefang Road,
Qianjiang District,
Chongqing City, China

Postal Code: 409000

Tel: 023-79237426

Fax: 023-79236496

Kai County Branch

Address: No. 2 Xincheng Yangliu Road,
Hanfeng Town, Kai County,
Chongqing City, China

Postal Code: 405400

Tel: 023-52250701

Fax: 023-52250853

Fengjie Branch

Address: No. 32 Gongping Lane,
Yong'an Town, Fengjie County,
Chongqing City, China

Postal Code: 404600

Tel: 023-56560397

Fax: 023-56560229

Wuxi Branch

Address: No. 28 Jiefang Street,
Chengxiang Town, Wuxi County,
Chongqing City, China

Postal Code: 405800

Tel: 023-51520567

Fax: 023-51520766

Wulong Branch

Address: No. 36 Furong Middle Road,
Xiangkou Town, Wulong County,
Chongqing City, China

Postal Code: 408500

Tel: 023-77723233

Fax: 023-77722595

Shizhu Branch

Address: No. 41 Xinkai Road, Nanbin Town,
Shizhu Tujia Autonomous County,
Chongqing City, China

Postal Code: 409100

Tel: 023-73332466

Fax: 023-73337976

Youyang Branch

Address: No. 5 Taohuayuan Middle Road,
Zhongduo Town,
Youyang Tujia and
Miao Autonomous County,
Chongqing City, China

Postal Code: 409800

Tel: 023-75532959

Fax: 023-75552534

Xiushan Branch

Address: Shizi Street, Yuxiu Avenue,
Zhonghe Town, Xiushan Tujia and
Miao Autonomous County,
Chongqing City, China

Postal Code: 409900

Tel: 023-76664159

Fax: 023-76671163

VILLAGE AND TOWNSHIP BANKS

Jiangsu Zhangjiagang Huaxin Village and Township Bank Co., Ltd.

Address: No. 487 and 489 Chang'an Road,
Zhangjiagang City, Suzhou City,
Jiangsu Province, China

Postal Code: 215600

Tel: 0512-58918989

Fax: 0512-58918969

Yunnan Dali Haidong Village and Township Bank Co., Ltd.

Address: No. 176 Yangbi Road,
Dali Economic Development Zone,
Dali Prefecture, Yunnan Province, China

Postal Code: 671000

Tel: 0872-2188579

Fax: 0872-2188667

Sichuan Dazhu Longyuan County Bank Co., Ltd.

Address: Block H8/9, Huangge
Commercial Plaza,
Xinhua Road East, Zhuyang Town,
Dazhu County,
Sichuan Province, China

Postal Code: 635100

Tel: 0818-6256123

Fax: 0818-6256616

Chapter XXVIII Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Bank” or “our Bank”	Chongqing Rural Commercial Bank Co., Ltd. (重慶農村商業銀行股份有限公司)
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CBRC Chongqing Bureau”	China Banking Regulatory Commission Chongqing Bureau (中國銀行業監督管理委員會重慶監管局)
“County Area” or “County Areas”	areas in Chongqing other than the urban area or urban areas, such areas consisted of 31 districts and counties
“Domestic Shares”	ordinary shares issued by our Bank in the PRC, with a nominal value of RMB1.00 each
“Group”	Chongqing Rural Commercial Bank Co., Ltd. (重慶農村商業銀行股份有限公司) and its subsidiaries
“GRC”	the abbreviation of Governance Risk and Compliance, referring to corporate governance, risk management and compliance management
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules of Hong Kong Stock Exchange”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“industries with high pollution, high energy consumption and excess capacity”	industries with high pollution, high energy consumption and excess capacity
“Listing”	the listing of H shares on the Main Board of the Hong Kong Stock Exchange
“Listing Date”	the date on which dealing in the H shares commenced on the Hong Kong Stock Exchange, i.e. December 16, 2010
“MIME”	Major decision-making, important changes of personnel, material project arrangement as well as enormous capital operation
“PBOC”	the People’s Bank of China
“PRC” or “China”	the People’s Republic of China
“RCB”	abbreviation of Rural Commercial Bank

“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Yuan”	RMB yuan
“Sannong”	a short-hand reference to the Chinese pronunciation of the phrase “agriculture, rural areas and farmers”
“Selling Shareholders”	collectively, Chongqing Yufu Assets Management Company Limited (重慶渝富資產經營管理有限公司), Chongqing City Construction Investment Company (重慶市城市建設投資公司), Chongqing Transport and Travel Investment Group Limited Company (重慶交通旅遊投資集團有限公司), Chongqing Water Conservancy Investment Group Co., Ltd (重慶市水利投資(集團)有限公司), Chongqing Agriculture Holdings (Group) Company Limited (重慶市農墾控股(集團)有限公司), Chongqing Yulong Asset Management (Group) Company Limited (重慶市渝隆資產經營(集團)有限公司), Chongqing Gaoke Group Co., Ltd (重慶高科集團有限公司), Southwest Aluminium (Group) Co., Ltd. (西南鋁業(集團)有限責任公司), Chongqing City South Bank Asset Management Company Limited (重慶市南岸資產經營管理有限公司), and Chongqing Jiangnan City Asset Operation Management Limited Co., Ltd (重慶市江南城市建設資產經營管理有限公司)
“Third Document of National Development”	“Opinions on Promoting of Coordinated Urban and Rural Development and Reform of Chongqing” (Guofa [2009] No.3) issued by the State Council on January 26, 2009, according to which the reform and development of Chongqing has been raised to national strategic level
“Three Measures and One Guideline”	the collective name of the Interim Measures for the Administration of Working Capital Loans (“流動資金貸款管理暫行辦法”), the Interim Measures for the Administration of Personal Loans (“個人貸款管理暫行辦法”), the Interim Measures for the Administration of Fixed Assets Loans (“固定資產貸款管理暫行辦法”) and the Guidelines on Project Financing Business (“項目融資業務指引”)
“Two Wings”	the “Two Wings” include the “Northeast Wing of Chongqing”, which covers towns in the Three Gorges Reservoir area with Wanzhou (萬州) as the center, and the “Southeast Wing of Chongqing”, which covers towns in the Southeast of Chongqing with Qianjiang (黔江) as the center
“Village and Township Banks”	bank institutions that are approved by CBRC (中國銀監會) to be incorporated in rural areas with the main business focused on providing services to local farmers or enterprises.
“Six mechanisms”	a term referred to by CBRC in Guiding Opinions on Bank Business of Extending Loans to Small Enterprises, including six mechanisms which should be implemented when commercial banks conduct business of extending loans to small enterprises, namely interest rate risk pricing mechanism, independent accounting mechanism, efficient loan examination and approval mechanism, incentive and constraint mechanism, specialized staff training mechanism and default notification mechanism



重庆农村商业银行
CHONGQING RURAL COMMERCIAL BANK

Address: No. 10 East Yanghe Road, Jiangbei District, Chongqing, China
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www.cqrcb.com